BOOK-KEEPING

AND

ACCOUNTS

A TEXT-BOOK FOR STUDENTS

BY

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PREFACE TO THE FIRST EDITION

THE author feels that some apology is due from him for adding yet another to the large number of works on Book-keeping which already exist. The only excuse he has to offer is that considerable pressure was brought to bear upon him to undertake the work. It was urged that his somewhat extensive experience as an examiner and lecturer should enable him to appreciate, and deal helpfully with, the difficulties presented by the subject to the average student.

It is not for the author to judge whether he has benefited by this experience sufficiently to justify the appearance of this treatise. He does, however, claim to have made every endeavour to explain whatever knowledge he has of the subject in as simple and concise a manner as possible. Those doubts and difficulties which experience has shown to be very real and troublesome to the examination candidate have been especially kept in view, and, in dealing with them, earnest attempt has been made to achieve clearness even at the risk of platitude and iteration.

It would be a matter of regret to the author if this treatise should come to be regarded merely as an aid to the successful passing in examinations. It is hoped that it may be found to possess real educative value, especially in the elucidation of those preliminary stages through which all book-keeping transactions must pass before their final destination is reached. The principles and details which underlie and govern these preliminaries are of vital importance to the student who is to enter commercial life.

It becomes increasingly evident from the examination work of the present day that many students have acquired knowledge for examination purposes in a scrappy and ill-digested form, the eagerness to obtain examination certificates having apparently predominated over the far more important necessity of laying sound foundations for future success in life.

The limited leisure at the disposal of the author would have greatly delayed the accomplishment of the work without the able and loyal assistance rendered by Mr. Stanley G. Smith, A.C.A., " Final " Prizeman, Institute of Chartered Accountants, a former pupil of the author's.

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CONTENTS

PAGE

SECTION I.—ELEMENTARY.

CHAP. I. ELEMENTARY THEORY 1

SECTION II.—ELEMENTARY PRACTICAL BOOK-KEEPING.

CHAP. II. ELEMENTARY COMMERCIAL PRACTICE 21

III. BOOKS OF ACCOUNT. STATISTICAL BOOKS. THE LEDGER . . 32

IV. THE CASH BOOK. THE PETTY CASH BOOK 43

V. THE PURCHASES BOOK (INVOICE BOOK OR BOUGHT DAY BOOK) . . 61

VI. THE SALES BOOK (SALES JOURNAL, SALES DAY BOOK, OR SOLD BOOK) 70

VII. THE JOURNAL 75

VIII. BILLS PAYABLE AND RECEIVABLE BOOKS. RETURNS BOOKS . . 88

IX. THE TRIAL BALANCE. TRADING AND PROFIT AND LOSS ACCOUNTS . 102

X. THE BALANCE SHEET 138

XI. A MERCHANT'S ACCOUNTS . . 154

SECTION III.—PRACTICAL ACCOUNTING.

CHAP. XII. CHEQUES AND BILLS OF EXCHANGE. 206

XIII. SINGLE ENTRY BOOK-KEEPING . 228

XIV GOODS ON SALE OR RETURN—CONSIGNMENT ACCOUNTS . . . 238

XV. PARTNERSHIP ACCOUNTS . . 255

XVI. JOINT STOCK COMPANIES AND THEIR ACCOUNTS 280

XVII. SELF-BALANCING LEDGERS. TABULAR OR COLUMNAR BOOK-KEEPING . 350

BOOK-KEEPING AND ACCOUNTS

CHAPTER I

ELEMENTARY THEORY

Book-keeping has been defined on so many occasions for the benefit of the student that it is difficult to find anything new to say in the way of definition; it has been briefly described as "the art of recording business transactions with the view of having a permanent record of them and of showing their effect upon wealth." Alternatively, book-keeping may be described as the science of recording transactions in money or money's worth in such a manner that, at any subsequent date, the nature and effect of *each* transaction, and the combined effect of *all* the transactions, may be clearly understood; and so that the accounts prepared at any time from the records thus kept may show the owner of the books his true financial position.

The above definitions do not prescribe any particular system of book-keeping, and leave the student to infer that any method which proves itself to be efficient is capable of being employed. From the earliest days, whenever barter involved the introduction of credit, some form of book-keeping became necessary, even though it took the elementary form of the notched stick or the chalked-up score! In modern practice, however, only one system of book-keeping is recognized as completely satisfactory, viz. that which is known as the "**Double Entry**" method, although other so-called systems are still occasionally to be met with. The Double Entry method first came into general use by the Italian merchants in the fifteenth century, at a time when the cities of Northern Italy were the principal trading centres of Europe.* From Venice and Genoa

* The first known treatise on book-keeping was published in 1494.

the system made its way to the commercial cities of the Low Countries, and appeared in England about the beginning of the seventeenth century. Book-keeping by Double Entry is the only "system" worthy of general adoption, there being no other which affords the trader so complete a history of his business dealings, coupled with a comprehensive statement of their result; while on the other hand, the "Single Entry" method of keeping books is very little better than a series of disconnected memoranda, necessarily incomplete, and often actually misleading.

An endeavour to explain the science of Book-keeping by Double Entry forms the principal object of this treatise; as, however, the Single Entry method is still to be met with in practice, and candidates for examination are asked questions based upon this system, it is necessary to deal with that subject also. A brief description of the Single Entry method and its shortcomings will therefore be found in Chapter XIII.

A person's dealings in money or money's worth are termed **Transactions.** These transactions are classified and recorded in a number of ruled account forms. *Each transaction has, of necessity, two aspects.* Though this may seem strange at first a little thought will satisfy the student of its truth. Every transaction in itself, and therefore as it must be recorded in the trader's books, involves both (*a*) the receiving of a benefit by one account and (*b*) the yielding of a benefit by some other account. Two accounts in the trader's books are therefore affected by each transaction, viz. the account that yields the benefit (the **Creditor**), and the account that receives the benefit (the **Debtor**). For example, X buys a motor lorry from H. Dickson. Here "Motor Lorries Account," *receives* the benefit of the car and is debtor for it, and "H. Dickson's Account" *yields* the benefit of the purchase price and is creditor for it. Hence the need for two entries in X's books, and the expression "double entry book-keeping." As will be explained later, the trader's **Ledger,** which is the name given to the ruled account forms, assembled together in the form of a book, is designed to distinguish between the "debtor" (or receiver) and the "creditor" (or giver) aspect of every transaction recorded in it.

In order that the particular aspect of every transaction may be explicitly defined and recorded, a primary

task in book-keeping is the *classification* of all transactions in a form readily accessible for subsequent reference. Efficient classification ensures that the aggregate result of all transactions similar in kind is easily ascertained.

A trader's transactions may, at the outset, be *classified* according to the person or object to whom or to which they relate.

If the trader deals in Bicycles and Motors and lends sums of money to John Smith, a preliminary division of his transactions would embrace three classes, viz. (*a*) those which relate to Bicycles, (*b*) those which relate to Motors, and (*c*) those which relate to his dealings with John Smith.

The book in which a trader's transactions are recorded in a classified permanent form is called the **Ledger.**

Very little reflection will, however, serve to show that it would not suffice for a trader merely to record his dealings with persons or objects in classified form in a Ledger, and to do no more than this. It has already been explained that transactions entered into by the trader with any particular person may be of two kinds, *i.e.* they may result in making that person either (*a*) the *debtor* or (*b*) the *creditor* of the trader with whom he has dealt, and whose transactions it is desired to record. Similarly, transactions in material objects may be either *purchases* or *sales*.

It is thus needful that the Ledger shall record transactions not only under their appropriate *general* heading, but also according to their *aspect* with regard to the trader himself. To fulfil this requirement the Ledger is ruled as under—

SPECIMEN LEDGER ACCOUNT

Dr. Cr.

A	B	C	D	E	F	G	H	I	J	K	L	M	N

The name of the person dealt with, or object dealt in, by the trader is placed at the top of the account.

Transactions are entered in columns A to G or in columns H to N, according to the relation which they

bear to the trader owning the Ledger. Taking first the left-hand side of the Ledger account, columns A and B are designed to record the date (month and day) of each transaction; column C is to record the details showing the nature of the item; column D contains a page reference to the book wherein appears a preliminary and more detailed record of the transaction; while columns E, F and G contain the amount of the transaction in pounds shillings and pence. The right-hand side of the Ledger account is designed to provide for the entry of transactions of similar general nature to those appearing upon the left-hand side of the account, though opposite in their effect as regards the trader himself; consequently columns H to N are a repetition of those on the other side of the account, the uses of which have already been enumerated.

Columns A to G together make up what is called the **Debit** side of the Ledger account, and columns H to N collectively form the **Credit** side. Abbreviations of these words appear at the top of the account under the forms **Dr.** and **Cr.**

As is explained more fully below, ledger accounts are divided as follows—

Personal Accounts, viz. those dealing with persons or firms, *e.g.*, John Smith; Blank & Co., Ltd., etc. These persons may be either debtors or creditors.

Real Accounts, viz. those relating to material objects or possessions, *e.g.* Machinery, Buildings, etc.

Nominal, viz. those recording gains or losses, *e.g.* Wages, Taxes, etc.

Personal Accounts are constructed as follows—

> The account kept by the trader with each person with whom he deals is *debited* with all moneys, objects, and values paid or yielded by him to the person with whom he is dealing, and is *credited* with everything received from, or yielded by, such person to the trader.
>
> Since everything paid or yielded by the trader to the other party is thus entered on the debit side, and everything yielded by, or received from, the other party is entered on the credit side, it follows that the difference between the totals of the two sides represents the net sum owing between the parties, and this sum is owing *to* or *by* the trader according

as the debit side of the account is greater than the credit side, or the reverse.

An example of a **Personal Account** (*i.e.* an account between persons) is appended.

I. Personal Account in the Ledger of A. Brown, Merchant

Dr. JAMES BLACK. **Cr.**

19—			£	s.	d.	19—			£	s.	d.
Jan. 1	To Loan to J. Black		10	0	0	Jan. 7	By Cash, repayment of loan		10	0	0
" 8	" Loan to J. Black		10	0	0	" 11	" Cash, repayment of loan		10	0	0
" 17	" Motor Car sold to J. Black ...		60	0	0	" 17	" Motor Lorry bought from J. Black		80	0	0
" 25	" Cash paid to J. Black		10	0	0						
" 31	" Cash paid to J. Black		10	0	0						
		£	100	0	0			£	100	0	0

NOTE.—In practice, J. Black's name would not be included in the description of the transactions in his account. The repetition above is simply to make it quite clear to the student what has occurred.

In the above account are recorded the transactions of A. Brown, a trader, with James Black. The first two items on the debit side of the account record loans made by A. Brown to J. Black; the third entry records the price of a Motor Car sold to J. Black by A. Brown; and the remaining two items on this side of the account represent cash payments by A. Brown to J. Black. The items on the credit side record moneys received by A. Brown from J. Black, concluding with the purchase price of a Motor Lorry bought by A. Brown.

It will be noted that the items on each side of this account total up to the same amount, showing that the transactions between the parties result in equilibrium. If, however, the total of the credit items had exceeded the total of the debit items, it would have indicated that Black was Brown's creditor for the difference, and *vice versa*. Such differences are termed **Balances.**

It is customary in the case of all Ledger accounts, whatever be their nature, to add up the two sides of the account at periodical intervals, and, after having inserted on one side the difference (or "Balance") necessary to make the two sides of the account equal in amount, to rule them off and to insert the balance afresh below the ruled lines. This "Balance brought down," as it is

termed, forms the starting-point for the transactions of a fresh period, and relieves the account of unwieldy totals.

Real Accounts.—Ledger accounts kept by a trader for the purpose of recording his transactions in *material objects* are constructed as under, viz.—

All objects (*e.g.* goods) acquired by the trader, or services rendered to him (*e.g.* wages), are entered by him in his Ledger on the debit (left hand) side of the account headed with the name of the object or service, and all objects disposed of or benefits yielded by him, are entered on the credit (right hand) side.

An example of a **Real** (or **Property**) **Account** (*i.e.* an account relating to dealings in material objects) is appended, in which the balance is brought down at the close of a month in the manner previously indicated.

II. Real Account in the Ledger of A. Brown, recording his transactions in Motors.

Dr. MOTORS ACCOUNT. Cr.

			£	s.	d.				£	s.	d.
19—						19—					
Jan. 1	To Cost of Motor Car bought from A. Carr		60	0	0	Jan 17	By Proceeds of Motor Car sold to J. Black		60	0	0
" 14	" Cost of Delivery Van bought from A. Carr.........		70	0	0	" 30	" Balance carried down, 3 Motors at cost		190	0	0
" 14	" Cost of Lorry bought for ready money		80	0	0						
" 15	" Cost of Motor Cycle bought from J. Jones		40	0	0						
		£	250	0	0			£	250	0	0
19—											
Jan. 31	To Balance brought down, 3 Motors at cost		190	0	0						

In the above account the items on the debit side represent A. Brown's purchases of Motors during the month, four in all, and on the credit side appears the record of a sale. It should be observed that Brown is not here shown as having made any profit on this sale.

Referring again to the two Ledger accounts (Real and Personal) illustrated above, it will be noticed that one transaction, viz. the sale of a Motor Car (on credit) by A. Brown to James Black on January 17, appears in

each of the two accounts. Following the rules already laid down a transaction of this nature must perforce appear *twice* in A. Brown's books as under—

1. On the debit side of the Personal Account of James Black, who received the benefit.
2. On the credit side of "Motors" Account, which yielded the benefit.

and in the accounts shown above this principle is carried out.

It will thus be apparent that the twofold nature of the transaction illustrated has been recognised and has affected *two* Ledger accounts, and that it has affected them in opposite ways; this simple illustration will enable the student to appreciate the general nature of the main principle of Double Entry book-keeping which is as follows—

That every one of a trader's transactions is twofold, or two-sided in its nature, that it should therefore be recorded simultaneously in two Ledger accounts, and that in one of these two accounts the entry must be placed on the debit side, while appearing on the credit side in the other.

In order that the student may intelligently grasp the application of the Double Entry principle, it must be clearly borne in mind that each transaction stands entirely alone, on its own merits, and has no connection with other items that may follow or precede it. Unless this fact is always held in view confusion of mind is inevitable.

All this has been somewhat laboriously set forth, but it is of paramount importance that, at the outset of his career, the student should clearly grasp the fact that, in Double Entry book-keeping, every entry must be compensated elsewhere by some other entry of corresponding amount, in order that the result of yielding and receiving benefits may be recognised.

Since (as laid down above) every entry appears once on each side of the Ledger it follows, as a corollary, that the sum of the entries made on the debit side of the Ledger is equal in amount to the sum of the entries appearing on the credit side, and that, assuming the Ledger to have been correctly kept, these two totals, if extracted or compiled from the Ledger accounts, should agree. This fact is of the greatest value to a trader, and

enables him to check the accuracy of his book-keeping. If the totals, when so extracted, fail to agree, it follows, either that the totals have been incorrectly compiled, or that the Ledger has been entered up inaccurately. It is usually a comparatively simple matter to eliminate errors made in extracting the totals of Ledger postings, and their subsequent agreement or disagreement either raises an inference (not of necessity conclusive) that the posting of the Ledger is correct, or proves, on the other hand, that it contains an error or errors. This possibility of readily ascertaining from the disagreement of the totals of the "Trial Balance," that error exists in the Ledger is, in practice, one of the principal utilities of Double Entry book-keeping; other systems provide no such means of disclosing error.

The totals of Ledger postings extracted from a Ledger are, as has been indicated, known as the **Trial Balance.** In former days Trial Balances were compiled exactly as has been explained, *i.e.* the gross totals of the debits and credits respectively were extracted. It is generally customary in practice now-a-days to extract the *balances* of the various accounts contained in a Ledger instead of compiling the *totals* of the entries appearing on both sides, but inasmuch as each balance itself incorporates the effect of the postings on either side of the account in which it appears, the principle remains unchanged. In preparing Trial Balances in answer to examination questions, the student will be wise to follow the modern practice and to enter balances in preference to totals.

Nominal Accounts.—In cases where the trader exchanges one material object for another, or enters into transactions in material objects with his debtors or creditors, only Real and Personal Accounts are involved, and sufficient has been stated already to enable the student to understand how to effect the necessary "double entry" in each instance. There remain to be considered those transactions which, at first sight, appear only to concern *one* Personal Account, or *one* Real Account, and which consequently may seem to be incapable of being resolved into the necessary form of a "double" entry. Nevertheless, careful consideration will demonstrate that these transactions also involve two aspects from a book-keeping point of view. Here also one account yields and another receives. The most numerous of these transactions are those where—

1. The trader acquires an object, or his business receives a benefit, or a debt becomes due to him, without his giving any corresponding object or property in exchange, *i.e.* where he makes a *profit* or a gain. Or where,
2. The trader parts with some object, or his business yields a benefit, or pays for services, or incurs a liability, without acquiring anything in exchange which he can regard as property, *i.e.* where he incurs an expense or a *loss*.

Transactions of the above nature are entered first, so far as they concern Real or Personal Accounts, in such accounts on their appropriate sides, and secondly, in order to complete the double aspect of the transaction, in accounts termed **Nominal Accounts** opened in the Ledger to record the *opposite aspect* of the transactions. Accounts are opened in the Ledger under the headings of the various gains or "profits" received, in which such benefits are entered on the credit side. Conversely, losses made or expenses incurred by the trader are recorded in separate "Loss" or Expense Accounts on the debit side, again for the necessary purpose of completing the double aspect of the transaction.

Example.—If the trader receives in cash £20 by way of commission, and pays thereout £5 for travelling expenses, both the £20 and the £5 will appear in his Cash Account, the former on the debit side and the latter on the credit side. By opening a Ledger account for "Commission," and by crediting the £20 in this account, the double aspect of this item is properly recorded, and by opening a Ledger account for "Travelling Expenses," to which the £5 is debited, the double aspect of the other transaction is also recognised.

The above example may be explained further. The business has yielded services, the measure of which is £20, that is to say, Commission Account has yielded a certain service, or benefit, producing £20; this sum is, therefore, credited to the Yielding Account, viz. to Commission Account. Five pounds have been paid for travelling, and in return the benefit, or service, of conveyance from place to place has been received, the £5 is, therefore, debited to the Receiving Account, viz. Travelling Expenses Account. It would be possible to record all these items in a Services Account, but that would obviously be anything but informative. This account is therefore subdivided into subsidiary accounts,

so that the total rewards for every kind of service yielded or received can readily be ascertained. In other words, it would be possible for the trader to keep only *one* nominal account in his Ledger to record all his gains and losses, instead of keeping a separate nominal account for each kind of " loss " or " gain." In modern business, however, this procedure is impracticable, as it is essential that the trader should know the totals of each kind of loss or gain over a given period of time, and this object cannot be attained without tedious analysis if all items of gain and loss are merged more or less confusedly in one account. At the end, however, of a given period of time, *e.g.* at the end of a year, the various accounts representing losses and gains are combined in a new Ledger account, styled the **Profit and Loss Account,** opened for that special purpose; each separate " Loss " or " Gain " account previously existing is closed by making an entry representing the total of the items already appearing in it, on the opposite side to that upon which such items appear, and a fresh entry for the *total* only is then made in the " Profit and Loss Account," on the same side as that upon which the original items appeared in the separate Ledger account.

These *total* entries in the Profit and Loss Account then replace the masses of *separate* items previously entered on one side or the other in the original Ledger accounts recording losses or gains.

Capital Account.—One other nominal account is to be found in the Ledger of every trader, and in every example of Double Entry book-keeping, and remains to be explained, viz. the Capital Account. Although this account is included amongst the nominal accounts, it is really a special personal account of the business with its proprietor. It records the interest, or wealth, which the owner of the business holds in it, and represents the excess of the assets he possesses in the business over his liabilities to the business, or, so far as the business is concerned, his *net worth.*

When a trader commences to keep his books by Double Entry all property owned by him, *i.e.* yielded *by* him *to* the business, is entered, according to the rules previously laid down, on the debit side of the appropriate Real or Personal Accounts, and all sums owing by him, *i.e.* yielded *to* him *by* the business, are entered on the credit side of accounts opened under the names of his creditors.

Except in the very unlikely case of the trader's total business liabilities being exactly equal in amount to the total value of his business possessions the total entries (for property and debtors) thus made on the debit side in his Ledger will not exactly equal the total entries (for creditors) made on the credit side; and, consequently, in order to record the position of the business as regards its proprietor, an account headed "Capital" is opened to record the difference between his possessions and his liabilities. In this account is entered (on the credit side) the excess of his possessions over his liabilities at the date of opening the books, or (on the debit side) the excess, if such there be, of the trader's liabilities over his possessions. When this has been done it will be obvious that the total balances entered on the debit side of the Ledger will equal exactly the amount of the balances entered on the credit side. The balance appearing on the "Capital" Account thus represents either the net worth of the trader in his business, or the net amount by which the business is insolvent.

Example.—J. Jones starts book-keeping with the following assets: (1) Shop property valued at £1,200, (2) Goods worth £300. He owes Brown & Company £600. Jones is thus really worth £1,200 + £300 − £600 = £900, and in opening his books he must (1) *debit* £1,200 to a "Shop Property" Account, (2) *debit* £300 to "Stock" Account, (3) *credit* £600 to Brown & Company's account, and finally, (4) *credit* £900 to "Capital" Account. This last account will then represent the net amount he has advanced to, or invested in the business as on the date the books were opened.

The net balance of the trader's combined Profit and Loss Account (see p. 10) is, at the date at which the latter is prepared, transferred from the Profit and Loss Account to the Capital Account, thereby recording the increase (or decrease) in the trader's net worth at the close of the period to which the Profit and Loss Account relates.

Sufficient has now been said to indicate the general nature of the accounts appearing in a Ledger kept upon the Double Entry principle, and by way of further illustration a brief example is appended. It may, however, be said for the purposes of reference that the balances appearing in a Ledger at any particular date may be classified as follows, viz.—

Debit Balances (*i.e.* balances of accounts wherein the entries on the debit side exceed those on the

credit side), representing either (1) Property, (2) Debts due to the trader, or (3) Losses or expenses.

Credit Balances, representing: (4) Debts owing by the trader, (5) Profits made, or (6) The amount of the trader's capital at the last date up to which it was ascertained.

When (3) and (5) (Losses and Profits) have been combined in a single "Profit and Loss Account," whereof the net balance has been transferred to (6) (Capital), the balances on the Ledger remaining are (1) Property, (2) Debts owing to the trader, (4) Debts owing by the trader, and (6) the Trader's Capital or net worth.

A trader's gross possessions and the debts due to him are, in book-keeping, known as his **Assets,** and the debts owing by him to other persons are known as his **Liabilities**; capital may thus be crudely described as the excess of a trader's assets over his liabilities. If the trader's liabilities exceed his assets, the entry in the "Capital" Account must perforce appear on the debit side, and indicates a condition of insolvency; the use of the term "Capital" in such a case obviously becomes somewhat of a misnomer.

Example.—1. James Wilson started business on November 2, 19—, as a cycle dealer.

2. On November 3 he borrowed £100 from Robert Wilson in cash.

3. On November 4 he bought on credit 10 bicycles from the Speed Manufacturing Company at £4 each.

4. On November 5 he sold 5 bicycles to H. Brown on credit at £5 each.

5. On November 6 he paid the Speed Manufacturing Company £30 on account.

6. On November 7 he sold 5 bicycles for cash at £4 10*s*. each, receiving the money.

7. On November 9 he paid £4 cash for expenses to date.

8. On November 10 he wrote up his books and ascertained his position.

These transactions must be recorded in James Wilson's Ledger as follows—

(2) *Debit Cash Account and credit R. Wilson with* £100.

Cash Account has *received* a benefit of £100, and R. Wilson (to whom a debt has been incurred) has *yielded* a benefit of a like amount.

(3) *Debit Bicycles Account and credit Speed Manufacturing Company with* £40.

Bicycles Account has *received* a benefit of the value of £40, and the Speed Manufacturing Company have *yielded* a like benefit.

(4) *Debit H. Brown and credit Bicycles Account with* £25.

A debt of £25 has become due from H. Brown, to whom bicycles of the value of £25 have been yielded, and Bicycles Account has parted with the like value.

(5) *Debit the Speed Manufacturing Company and credit Cash Account with* £30.

The Speed Manufacturing Company has *received* cash amounting to £30, and Cash Account has *yielded* the like amount.

(6) *Debit Cash Account with* £22 10*s. and credit Bicycles Account.*

Cash Account has received the benefit of £22 10*s.* in cash, and Bicycles Account has parted with cycles of the like value.

(7) *Debit "Expenses" Account and credit Cash with* £4.

Expenses Account has received some benefit or service, in exchange for the cash spent in this direction, and Cash Account has parted with, or yielded, the money.

J. WILSON'S LEDGER

ACCOUNT No. 1.

Dr. CASH **Cr.**

19—			£	s.	d.	19—			£	s.	d.
Nov. 3	To R. Wilson, loan	3	100	0	0	Nov. 6	By Speed Manufacturing Company, payment on account	5	30	0	0
,, 7	,, Proceeds of 5 bicycles sold for cash	2	22	10	0	,, 9	,, Expenses to date	6	4	0	0
						,, 10	,, Balance carried down ...	√	88	10	0
		£	122	10	0			£	122	10	0
19— Nov. 10	To Balance brought down	√	88	10	0						

Account No. 2.

BICYCLES ACCOUNT *

Dr. | Cr.

Date		Fo.	£	s.	d.	Date		Fo.	£	s.	d.
19—						19—					
Nov. 4	To Cost of 10 bicycles bought from Speed Manufacturing Company	5	40	0	0	Nov. 5	By Proceeds of 5 bicycles sold to H. Brown	4	25	0	0
" 10	" Balance transferred to Profit and Loss Account	7	7	10	0	" 7	" Proceeds of 5 bicycles sold for cash	2	22	10	0
		£	47	10	0			£	47	10	0

Account No. 3.

R. WILSON (Loan Account)

Dr. | Cr.

Date		Fo.	£	s.	d.	Date		Fo.	£	s.	d.
						19—					
						Nov. 3	By Cash (loan)	1	100	0	0

Account No. 4.

H. BROWN

Dr. | Cr.

Date		Fo.	£	s.	d.	Date		Fo.	£	s.	d.
19—											
Nov. 5	To 5 Bicycles at £5 each	2	25	0	0						

Account No. 5.

SPEED MANUFACTURING COMPANY

Dr. | Cr.

Date		Fo.	£	s.	d.	Date		Fo.	£	s.	d.
19—						19—					
Nov. 6	To Cash on account	1	30	0	0	Nov. 4	By 10 Bicycles at £4 each ...	2	40	0	0
" 10	" Balance carried down ...	√	10	0	0						
		£	40	0	0			£	40	0	0
						Nov. 10	By Balance brought down	√	10	0	0

* As the student will learn later, the modern practice is to open separate accounts for Purchases and Sales. In this illustration, for the sake of simplicity, the Bicycles Account has been used for both classes of transaction.

ACCOUNT NO. 6.

Dr. EXPENSES ACCOUNT. Cr.

			£	s.	d.				£	s.	d.
19—						19—					
Nov. 9	To Cash	1	4	0	0	Nov. 10	By Balance transferred to Profit and Loss Account	7	4	0	0
		£	4	0	0			£	4	0	0

ACCOUNT NO. 7.

Dr. PROFIT AND LOSS ACCOUNT Cr.

			£	s.	d.				£	s.	d.
19—						19—					
Nov. 10	To Expenses ...	6	4	0	0	Nov. 10	By Bicycles (gross profit on)	2	7	10	0
„ 10	„ Net Profit transferred to Capital Account	8	3	10	0						
		£	7	10	0			£	7	10	0

ACCOUNT NO. 8.

Dr. CAPITAL ACCOUNT Cr.

									£	s.	d.
						19—					
						Nov. 10	By Net Profit to date, transferred from Profit and Loss Account	7	3	10	0

The above entries (2—6) having been entered in the Ledger, James Wilson proceeds to balance and rule off his books to ascertain how he stands.

In order to prove that he has correctly posted his Ledger he first extracts his Trial Balance, *i.e.* he copies on a separate loose sheet the balances appearing on the Ledger accounts, discriminating between those in which the excess of entries appears on the Debit side, and those in which the excess appears on the Credit side.

For example, the Cash Account on November 9th shows debit entries totalling £122 10*s.* against credit entries amounting to £34. There is thus an excess of entries on the Debit side of £88 10*s.*, which represents the amount of cash in hand on November 10th.

Following the above principle, J. Wilson constructs the Trial Balance as under—

TRIAL BALANCE, November 10th, 19—

ACCOUNTS.	FOLIO.	DR. £	DR. s.	DR. d.	CR. £	CR. s.	CR. d.
Cash	1	88	10	0			
Bicycles	2				7	10	0
R. Wilson	3				100	0	0
H. Brown	4	25	0	0			
Speed Manufacturing Company	5				10	0	0
Expenses	6	4	0	0			
		£117	10	0	£117	10	0

Since the totals of the two sides of the above Trial Balance tally, J. Wilson is justified in assuming that his Ledger posting is correct.

Turning again to the above Trial Balance, it will be noted that there are two accounts which represent a profit and a loss, viz. Bicycles Account and Expenses Account respectively.

The balances on Bicycles Account and Expenses Account are transferred to a new account called Profit and Loss Account, wherein they are entered on the same sides of the account as those upon which they appear in the Trial Balance.

There is, then, a balance of £3 10*s*. to the credit of the Profit and Loss Account; this balance represents the net earnings of J. Wilson in his cycle business from November 2nd to November 10th, and must be transferred to J. Wilson's Capital Account. It is to be noted that whereas J. Wilson started business without possessing anything, except £100 *borrowed* from a friend, he has now made £3 10*s*., and to that extent has become a capitalist. Following the above definition of Capital as an excess of Assets over Liabilities, the student will naturally expect to find that J. Wilson possesses, in one shape or another, £3 10*s*. more than he owes, and a reference to the Trial Balance will show this to be the case.

J. Wilson's assets are cash (£88 10*s*.) and a debt due to him by H. Brown (£25), *i.e.* £113 10*s*. in all; on the other hand, he owes a total of £110 to R. Wilson and the Speed Manufacturing Company, and the difference between these totals, in other words, his Capital, is found to correspond with the balance (£3 10*s*.) appearing

on his Capital Account as on November 10th. This, of course, is an inevitable consequence of correct Double Entry book-keeping.

Having transferred the balance of the Profit and Loss Account to the Capital Account, J. Wilson balances (*i.e.* rules off and brings down the balances on) his Ledger, and then constructs a fresh Trial Balance with the sides reversed.* This second compilation is called a **Balance Sheet,** ~~and~~ is drawn in the form which is usually adopted in English commercial practice.

J. WILSON, BALANCE SHEET, as on November 10th,

LIABILITIES.	£	s.	d.	ASSETS.	£	s.	d.
Capital Account— J. Wilson	3	10	0	Cash in Hand	88	10	0
				Debtor—			
Creditors—				H. Brown	25	0	0
R. Wilson (Loan) ...	100	0	0				
Speed Manufacturing Company ...	10	0	0				
	£113	10	0		£113	10	0

In the foregoing example J. Wilson has been shown as having sold the whole of his bicycles before the end of his trading period; had he failed to dispose of them all a slightly different procedure would have been necessary, as follows. After having extracted his Trial Balance, and before opening his Profit and Loss Account, it would have been necessary for J. Wilson to place a value upon the bicycles remaining on hand unsold, as on the 10th of November; for the total value of the stock of unsold bicycles thus arrived at an entry would have been passed through the books *crediting* the Bicycles Account for the period 2nd to 10th of November (as if the bicycles on hand had been disposed of immediately prior to closing the books for the period), and *debiting* a new Bicycles Account opened for the succeeding period; in this new account the "stock at cost brought forward" would have formed the first entry.

The reason for this treatment is, that the *old* trading

* In bygone days it was the practice actually to close the books into a "Balance Account" (or Balance Sheet) at the end of a trading period, and to reverse the account in order to open the books for a fresh trading period, but this method is not met with in modern business.

period (now closed) is handing over to the *new* trading period (about to commence) the stock of bicycles left unsold. This being so, it is obvious that the old period must be given credit for the value of the stock handed over, if a true profit for the closing period is to be arrived at. The stock on hand is, therefore, treated as if actually sold at cost to the new period, and its cost price is credited to the old Bicycles Account, the balance of which (gross profit) is transferred to the Profit and Loss Account as shown on p. 15.

The following example illustrates the Bicycles Account of J. Wilson as it would have appeared had he, on the 7th of November, sold only four bicycles at £4 10*s.* apiece instead of five. In this case one bicycle would have remained on hand at the 10th of November, and would have required to be carried forward to a fresh bicycle account to be opened for the succeeding period. The starting balance of £4 "brought down" in the new Bicycles Account for the period commencing 11th of November would have formed one of the Ledger balances outstanding as on the 10th of November, and would, of course, have required to be taken into any Trial Balance prepared at that date, in order that the two sides might agree.

ACCOUNT No. 2A.

BICYCLES ACCOUNT, for the period from November 2nd to November 10th, 19—

Dr. Cr.

19—			£	*s.*	*d.*	19—			£	*s.*	*d.*
Nov. 4	To cost of 10 bicycles bought from the Speed Manufacturing Company	5	40	0	0	Nov. 5	By proceeds of 5 bicycles sold to H. Brown ...	4	25	0	0
" 10	" Balance transferred to Profit and Loss Account	7	7	0	0	" 7	" Proceeds of 4 bicycles sold for cash	2	18	0	0
						" 10	" Stock (1 bicycle) on hand carried forward to Bicycles Account for next period valued at cost (£4)	✓	4	0	0
			£47	0	0				£47	0	0

The Bicycles Account appearing above has been prepared as shown in order to illustrate as simply as possible the principles upon which gross profits are arrived at. In practice separate accounts would be opened for "Purchases," "Sales" and "Stock," and the results of these accounts would be combined, as explained later, in a "Trading Account."

ACCOUNT No. 2B.

BICYCLES ACCOUNT, for the period from November 11th, 19—, to............19—

Dr.			£	s.	d.				£	s.	d.	Cr.
19—												
Nov. 11	To Stock (1 bicycle) brought forward from last period valued at cost	√	4	0	0							

EXERCISES.

Enter the following transactions in a Ledger, preparing therefrom a Trial Balance, Trading and Profit and Loss Accounts, and a Balance Sheet, upon the lines laid down in Chapter I.

EXERCISE 1A.

The transactions of R. Jones were as follows :—

19—.
Jan. 1. Started business as a tea-dealer.
,, 2. Borrowed £200 from Brown Bros.
,, 3. Bought on credit tea from the Lampan Plantations, Ltd., £250.
,, 4. Paid Lampan Plantations, Ltd., on account, £150.
,, 5. Sold part of the tea to Harris & Co. on credit for £200.
,, 6. Sold the remainder of the tea by auction for cash, £105.
,, 8. Received from Harris & Co. cheque for £200.
,, 9. Paid Lampan Plantations, Ltd., further on account, £50.
,, 10. Paid expenses in cash, £5.

EXERCISE 1B.

The transactions of O. Smith were as follows :—

19—.
Feb. 1. Started business with £100 cash in hand.
,, 2. Bought for cash fancy goods, £80.
,, 3. Lent Horne & Co., £10.
,, 4. Sold to Robertson Bros. half the fancy goods bought on Feb. 2 for £70, which sum was immediately paid by Robertson Bros. to O. Smith in cash.
,, 5. Lent Horne & Co., £30.
,, 6. Paid in cash expenses, £4.
,, 8. Bought on credit fancy goods from the Western Manufacturing Company, £60.

NOTE.—Stock of goods on hand as on Feb. 8th is to be valued at cost, £100 (made up of the cost price of the remaining half of the goods, bought on Feb. 2nd, £40, plus cost of the goods bought on Feb. 8th, £60).

Exercise 1c.

The transactions of William Murray were as follows :—

19—.
Mar. 17. Started business with Stock of Goods valued at £150, Cash £50, and owing Wallace Brothers £85.
„ 19. Sold to Harriman & Co., goods on credit £25 10*s*.
„ 20. Bought goods from A. Morris upon credit, £36 5*s*.
„ 21. Paid to A. Morris, in cash, £20 on account, and paid to Wallace Brothers £15 on account.
„ 22. Received from Harriman & Co., cash, £25 10*s*.
„ 23. Paid expenses, cash, £4.

Note.—Stock on hand as on March 23rd to be valued at £170.

Exercise 1d.

The transactions of G. Smith were as follows :—

19—.
April 6. Started business with £500, cash.
„ 7. Bought goods for cash, £365.
„ 9. Sold goods on credit to A. Brown, £350.
„ 11. Paid in cash, expenses and advertising, £10.
„ 12. Sold goods on credit to R. Jones, £19.
„ 13. Paid in cash salaries, £2.
„ 15. Received cash from A. Brown on account, £300.
„ 17. Paid in cash office rent and housekeeping expenses, £2 5*s*.

Note.—Stock on hand as on April 17th, *Nil*.

Answers.

1a.	Net Profit, £50;	Final	Balance of	Capital	Account,	£50.
1b.	„ £26;	„	„	„		£126.
1c.	„ £5 5*s*.;	„	„	„		£120 5*s*.
1d.	Net Loss, £10 5*s*.;	„	„	„		£489 15*s*.

CHAPTER II

ELEMENTARY COMMERCIAL PRACTICE

BEFORE proceeding to outline the methods of Double Entry book-keeping in its application to modern commercial practice, some brief explanation of the main features of a trader's ordinary transactions may be useful and, indeed, is perhaps needful. This chapter, therefore, explains certain matters of everyday occurrence in the business of almost every trader.

The custom of keeping a Banking Account, and the extensive use of cheques in paying and receiving sums of money first claim attention.

In countries—now few in number—where a proper system of banking cannot be said to have been established, the trader is naturally forced to keep his spare cash in the form of notes or coin, and to retain the same in his own possession, subject to such safeguards in the way of locks and strong boxes as circumstances will permit. Whenever money is paid to any person he is put to the trouble of counting it over, and of satisfying himself as to the authenticity of the notes or the weight and currency of the coins, and where large sums change hands the loss of time arising out of these tedious operations is obviously considerable.

The above difficulties are surmounted by the modern practice of banking. Nowadays very few traders retain any considerable sum of money in their possession; the majority deposit all money not required for current needs with a Bank. A Bank is an institution which receives deposits of money from the community at large, on the understanding that it must, on demand, repay those deposits to the depositor, or to any person or persons designated by him. The trader who thus keeps his cash balance with his Banker, instead of in his own possession, avoids the risks attendant upon his own custody of the money, and is able to direct the Bank to repay any desired sum of money to himself or to any

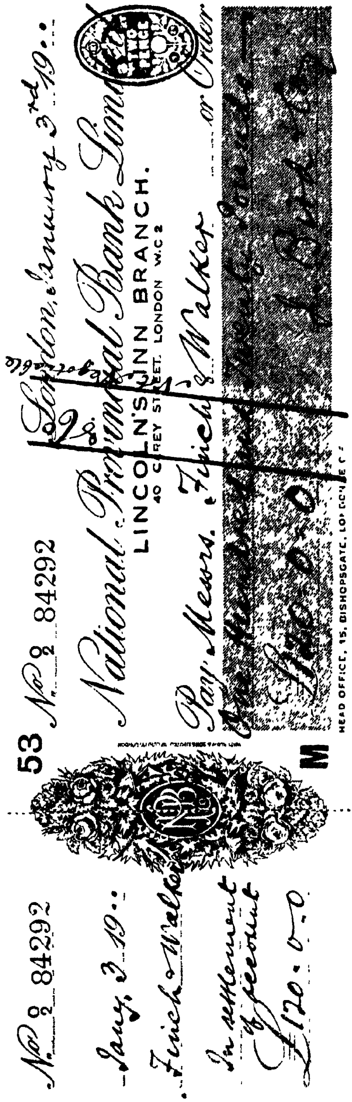
other person or persons within the limits of the amount held by the Bank on his behalf at any particular time. This is a much safer way of making payments than if the trader had to make his payments by sending actual cash to those to whom he owed money. Money thus placed with a Banker to be drawn against at sight by means of cheques is said to be placed with the Banker upon **Current Account.**

The payments thus made by Bankers on behalf of the trader are made by them on presentation of the trader's signed orders called **Cheques.** A cheque bears the name of the banker (the drawee), the date when it is drawn, states in words and figures the sum of money to be paid, the name of the person to whom it is to be paid (the payee), and is authorised by the signature of the trader (the drawer of the cheque). Cheques can be made out for any sum of money, however large or small, provided always, of course, that they do not exceed the trader's credit balance with his Banker. If the cheques drawn exceed the trader's credit balance with his Banker, a debit balance naturally ensues which is called an **Overdraft.** Bankers, however, will not allow an overdraft, except by arrangement, and, most usually, they require some security or guarantee that the amount of any overdraft allowed will eventually be refunded to them.

On the following page is a form of cheque in common use.

The left-hand portion of this form is called the **Counterfoil**; the larger portion is the **Cheque** itself. Wehn the cheque has been filled in it is torn off where the perforated line is shown and handed or posted to the person in whose favour it has been made payable, who is called the **Payee.** The details of the cheque (date, payee, what the payment is for, amount, etc.) are entered in brief on the counterfoil, and the details thus recorded (kept by the drawer of the cheque) are subsequently useful for reference in case of need. The owner of the banking account who "draws" and signs the cheque is called the **Drawer,** and the Banker upon whom the cheque is drawn the **Drawee.**

The many advantages of the cheque system of making payments have become so generally recognised that by far the greater part of a trader's receipts come to him in the form of cheques, which he, in his turn, deposits with



N.B. To facilitate machine accounting, the latest cheque form shows the signature to the left, and the amount in figures to the right of the form.

his own Banker for collection on his behalf.* Such cheques, when collected, are duly placed by the Banker to the credit of the trader's account. Similarly, almost all the modern trader's payments are made by cheque.

Cheques for small payments are used nowadays to a much greater extent than was the case formerly. But, in every business, certain small current expenses arise which must be paid in cash. Most traders, consequently, are obliged to keep small sums in coin or notes on their premises, but the sums so held are, in the majority of cases, relatively insignificant. The small sum so held for the purpose of making payments of a trifling nature is termed **Petty Cash,** and, in most businesses, all money except the "Petty Cash" is kept, as indicated above, in the hands of the Bankers.

The book supplied by a Banker to his customer containing a copy of the latter's Ledger Account with the Banker is called the **Bank Pass Book,** or, briefly, the Pass Book. This book is delivered to the customer at the time of, or soon after, the opening of his Banking Account, and is periodically returned by him to his Banker to be written up to date.

But, with the introduction of machine-book-keeping, the old bound Bank Pass Book is in course of being superseded by "loose-leaf" books. Where loose-leaf books are employed, the banker supplies the customer with a binding case, or cover, in which to keep the loose leaves. The banker then hands to the customer a sheet on which may be typed the transactions which have taken place on the customer's account since the last sheet was collected by him, so that there is never any need for a Pass Book to be returned to the Bank. The sheets are typed simultaneously with the posting of the customer's account at the Bank, and therefore are an exact copy thereof. The special typewriters employed add up the amounts entered in the account and automatically strike and record the resulting balance. In many of the smaller branches the sheets are written up by hand.

In the course of his business operations a trader frequently requires additional funds wherewith to embark upon special transactions, or to enable him to cope with the increasing magnitude of his business, and for these

* The large modern retail stores dealing, for the most part, for cash, form an exception; but the vast majority of traders receive cheques in settlement of the debts due to them.

purposes he often obtains loans either from his Bank or from his friends, at such rates of interest as he is able to bargain for. It may be assumed that, as a general rule, a Banker will not advance money to a trader without some substantial security, although, like private friends of the trader, he may be willing, in certain cases, to trust to the trader's reputation for ability and integrity without any special security to cover the advance. In almost every case it is the question of the presence or absence of security, specifically given to cover the loan, which fixes the rate of interest the trader is obliged to pay for the convenience extended to him; a loan may be obtainable from a Bank at slightly above current Bank rate if the security offered is adequate, whereas upon an unsecured loan obtained either from the Banker or from business or other friends a higher rate of interest will, naturally, frequently be demanded.

As regards a trader's Current Account, the Banker always contemplates, in opening an account, that a sufficient balance shall be maintained by the trader to cover the Banker's expenses and to allow a small margin of profit for the trouble of keeping the account. The amount of the minimum credit balance which a Bank requires its customers to keep varies with different Banks and localities. If the balance falls below the limit fixed in any particular case, the Banker will usually make an annual charge (called a "commission") for conducting the trader's Banking Account.

According to the custom of London Bankers no interest is allowed to the trader upon money placed by him to the credit of his Current Account, but interest is allowed upon sums specifically placed with the Banker upon **Deposit Account.** Deposit Accounts cannot be drawn upon by cheque, nor is the money usually repayable upon demand as in the case of Current Accounts; a stated period of notice (usually fourteen days*) is required before the withdrawal of any part of a Deposit Account balance, and upon the money entrusted with a Banker upon these terms interest, varying with the value of money for the time being, is allowed. The rate allowed is usually 2 per cent. below **Bank rate.** Bank rate is the current official minimum rate at which the Bank of England will discount approved bills of exchange for persons other

* The higher the rate of interest allowed, the longer the notice required is the general rule.

than its own customers. In practice, Bankers frequently waive the period of notice required, and allow customers to withdraw portions of their balances on deposit account, or even the whole balance, without notice. A trader who finds that his Current Account shows a balance considerably in excess of his immediate future requirements can transfer a portion of the money lying idle on Current Account to Deposit Account, and thus obtain the advantage of the interest allowed on the latter; he can subsequently retransfer from Deposit Account to Current Account such sums as he may need from time to time.

In the north of England an arrangement sometimes exists among Bankers of (1) allowing the trader interest upon sums kept with them upon Current Account, and (2) charging him a fixed rate of commission upon the total of the cheques drawn by him over any given period; this custom is perhaps more equitable both to customer and Banker than the London custom of allowing no interest upon Current Account, and of charging no commission for keeping the account unless the balance falls well below the standard which is usually expected to be maintained, but the Banker's labour in calculating both interest and commission upon a large number of Current Accounts is obviously great. The custom of allowing interest upon Current Accounts, and of charging a commission upon the drawings, exists largely, also, upon the Continent, where, however, the system of making payments by cheque has not attained the same popularity as it has in this country.

Another commercial practice requiring explanation is the method usually adopted by traders when effecting purchases and sales of the commodities in which they deal.

A trader may buy or sell goods for immediate payment, or he may buy or sell goods on the condition that he makes or receives payment for them at some future date; in the former case the transaction is said to be **For Cash**, and in the latter it is said to be **Upon Credit.**

When a trader has sold goods **Upon Credit**, that is, when payment for them must be made on a future specified date, he usually allows any purchaser who may desire to pay for the goods before that specified date, a percentage on the amount payable. This allowance or deduction is called a **Discount for Cash**, or **Cash Discount.** Some students appear to wonder why, having fixed a

price for his goods, the trader is willing to allow a deduction—cash discount—for prompt payment. Such discounts really represent interest paid for obtaining the immediate use of cash. A trader could, of course, allow the debts to stand until the due date of payment came round, but, in the majority of cases, it pays the trader to allow these discounts, since he can employ the cash received in his business, and earn higher rates of interest (or profit) than the cash discount allowed to his customers.

There is another kind of discount, called **Trade Discount,** which arises from the fact that many wholesale traders issue Price Lists (or Catalogues) in which their goods are described and advertised for sale at standard prices; and that from these prices certain deductions, called Trade Discounts, are made, the percentage varying in different trades. These Trade Discounts represent the main profit of those dealers whose business it is to supply the wholesaler's goods to the general public.

Cash Discount and Trade Discount must not be confused; both of them may be, and frequently are, allowed to the purchaser in the same transaction. The Trade Discount reduces the catalogue price to the amount due from the purchaser; while the Cash Discount is offered as an inducement to the purchaser to discharge his obligation to pay at an earlier date than he otherwise would.

The great advantage of the Trade Discount system lies in the fact that in many trades prices are subject to frequent, and often sudden, fluctuations. These fluctuations may be caused by excess of the demand over the supply of the manufactured articles; or by excess of the supply over the demand; or by an excessive or a diminished production of the raw material; or by other causes. It is obvious that the alteration of a great number of prices in a trade catalogue to meet every fluctuation would involve the necessity of continually issuing new Price Lists, with a consequent waste of time and money. On the other hand, a notification to the trader's customers that the Trade Discount has been changed is an equally effective, and a much quicker and more convenient, method of adjusting prices.

In modern practical book-keeping, Trade Discounts are not incorporated as such in the trader's Ledger; a

memorandum of their having been allowed is made in the book wherein the sale is first recorded, and the transaction is passed through the Ledger as though the goods had originally been sold at the standard list price, *less* the Trade Discount.

Goods which, upon delivery by a seller to a purchaser are found to be unsatisfactory in some respect, *e.g.* "not up to sample," or "not according to order," can be returned by the purchaser to the seller, and an allowance is then made for them calculated at the full original price agreed upon between the parties, less, of course, any trade discount which may have been deducted. Such transactions are termed **Returns,** and are styled **Returns Inwards** or **Returns Outwards,** according as they are received by or returned by the trader whose transactions are to be recorded.

An enterprising trader usually prefers to receive prompt payment of the debts due to him. He has his own creditors to satisfy, and, in addition, he is influenced by the reflection that the more rapidly he can obtain payment of the debts due to him the more expeditiously he can embark upon fresh transactions.

In order to combine the debtor's inclination to defer payment until the extreme limit of his credit with the creditor's desire for prompt settlement, a document called a **Bill of Exchange** is brought into use.

A Bill of Exchange is a short written document, specimen forms of which will be found in Chap. XII, whereby a debtor contracts to pay a certain sum of money at a stated future date to his creditor, or to any other person to whom his creditor may direct the money to be paid. A Bill of Exchange resembles a bank-note in so far that, if it is a bill payable to "bearer," any *bona fide* holder of it can confer upon any other person the right to receive the amount due on the bill at maturity by merely handing the bill to him; but a bill differs from a bank-note in that, if it is payable to the order of a particular person, it requires an "endorsement" (*i.e.* a signature on the back of the bill) by the transferor to complete the transferee's legal title to the bill.

The practical utility of a document of this nature will be obvious; in the first place, it is a written acknowledgment of indebtedness, coupled with a definite liability for payment, and is, therefore, legal evidence of a debt; and for these useful characteristics alone, if for no others,

a creditor usually prefers a Bill of Exchange in place of an ordinary open book debt. Secondly, the creditor who has obtained a Bill of Exchange signed, or "accepted," by his debtor, possesses a negotiable instrument which, if the reputation of the "acceptor" be good, is readily realizable. Banks and discount companies are always willing to "discount" (*i.e.* purchase for something less than their face value) Bills of Exchange bearing the names of well-known traders, and the possessor of such an accepted bill will have no difficulty in discounting it, and, having discounted it, he can of course employ the proceeds in entering into fresh transactions.

It will be gathered by reference to the Bills of Exchange illustrated on pp. 218–9 that the *creditor's* (*or drawer's*) signature must ordinarily appear on a Bill of Exchange as well as that of the *debtor*, although the latter is the person by whom the money is expressed to be payable; and, as a consequence, if the creditor discounts a bill accepted by his debtor, he is himself liable to pay the amount of it to the Banker who discounts it (or to any third party to whom he may negotiate the bill), if the debtor fails to meet his obligation upon the presentation of the bill at maturity. Every party to a Bill of Exchange is liable upon it, and this fact constitutes another cogent reason why good trade bills are favoured by Bankers as temporary investments.

When a debtor signs a Bill of Exchange in favour of his creditor he is said to **accept** it, and the creditor is said to **draw** upon him. As will be seen by reference to the illustration in Chap. XII, the actual form of a Bill of Exchange is that of a letter addressed by the creditor to his debtor requiring payment of a certain sum at a future date, to which order the debtor signifies his assent by writing his name across the letter itself.

From the point of view of an "acceptor," outstanding bill obligations are termed in book-keeping **Bills Payable;** from that of a "drawer" they are described as **Bills Receivable.** The deduction made by a banker when buying a Bill of Exchange from anyone possessed of it is called "Discount," or **Banker's Discount,** and its measure is usually the interest on the face value of the bill from the date of purchase to the date of maturity at an agreed rate per cent. per annum. Bills of Exchange are usually expressed as being payable at certain fixed periods of time, *e.g.* months or days after the date when

they were drawn or presented for acceptance. Thus, a bill might be drawn payable "sixty days after sight," or "three months after date." This period of time is termed the **Tenor** of the bill. In the United Kingdom, a custom of old standing permits the acceptor three additional days in which to meet the bill, immediately following the number of days actually mentioned in the bill, and this custom of allowing three **Days of grace** has been incorporated in English law. In the United Kingdom, therefore, a bill which is expressed to be payable "ninety days after date" is consequently actually payable ninety-three days after the date of its original execution. Where the tenor of a bill is expressed in months, calendar months are to be understood, and the three days of grace must be added in order to obtain the actual date of maturity. Where the bill is payable so many days after sight, the date of payment is calculated from the date when the bill is presented for acceptance, and the three days of grace must be added to the time mentioned in the bill. Thus a bill drawn payable "sixty days after sight" is due for payment on the sixty-third day after acceptance. It is to be noted that where a bill is payable "on demand," or "at sight" or "on presentation," or on a day fixed, no days of grace are allowed.

EXERCISES.

Exercise 2a.

1. How does a trader keep his spare cash (*a*) in primitive countries, (*b*) in countries where a banking system has been established?

2. How does a trader make payments from the sums kept by his Banker for him on Current Account?

3. Explain the characteristics of, and the difference between, a "Current Account" and a "Deposit Account" with a Bank.

4. What is the difference between a sale of goods "for cash" and "upon credit"?

5. In the case of a sale of goods by a trader to another person "on credit," explain what various methods of payment or discharge of the debt are usually open to the debtor.

6. Distinguish between "Cash Discounts" and "Trade Discounts." How are they treated in practical book-keeping?

Exercise 2b.

1. Explain the terms "Returns Inwards" and "Returns Outwards."

2. What is the use of a Bill of Exchange (1) to the person who

receives it in discharge of a debt, (2) to the person who "accepts" it to satisfy a debt?

3. What is the basis upon which Bankers calculate the amount of the "discount" when buying a Bill of Exchange?

4. What is meant by the term "days of grace"?

5. A trader wishes to raise a loan to employ in his business; discuss the questions of security and rates of interest in connection with such a loan from a general standpoint.

6. Where is it customary (1) to allow interest on Current Accounts kept with a Bank, (2) not to make such allowance? Explain the working of a trader's Banking Account under each system.

Exercise 2c.

1. What is meant by the term "Bank Rate"?

2. What is meant by the term "Banker's Discount"?

3. What is meant by the "tenor" of a given Bill of Exchange?

4. Explain the terms "Bills Payable" and "Bills Receivable."

5. A Bill drawn on the 2nd of January is expressed to be payable "sixty days after date"; at what date does it mature for payment?

6. State the reason why, under ordinary circumstances, a Trader prefers to receive prompt payment of the debts due to him, even if he is compelled to forgo a small portion of his profit in order to obtain it.

Exercise 2d.

1. Explain the liability of the "drawer" upon a Bill of Exchange received by him and discounted with his Bankers.

2. Explain the following expressions: an "Endorsement," a sale "for Cash" and a sale "upon Credit."

3. Explain briefly the nature and form of a Bill of Exchange.

4. How does a Bill of Exchange (*a*) resemble and (*b*) differ from a Bank-note?

5. Are "days of grace" universally allowed in the case of Bills of Exchange?

6. What are the characteristics of a "Deposit Account" with a Banker? Explain the advantages of such an account (*a*) from the depositor's and (*b*) from the Banker's point of view.

CHAPTER III

BOOKS OF ACCOUNT, STATISTICAL BOOKS, THE LEDGER

IN Chapter I an endeavour was made to explain that, in theory, the record of the transactions of a business could be fully dealt with by means of Ledger entries. It will probably, however, be obvious to the student that, in actual practice, this method must be considerably modified in order that the same results may be attained with far greater economy of time and trouble.

At this point it is advisable to request the student to impress clearly upon his mind the fact that, in order that the books of any commercial concern may approach as nearly as possible to the maximum of usefulness and economy, three essentials must be attained, viz. (1) The utmost possible use of " original entries " (*i.e.* of entries made at the time of the occurrence of each transaction), (2) the prevention and localization of errors, (3) the suitable division of the various books for the convenience of the counting-house staff.

The books commonly employed by a trader in his business may be grouped into two classes, (1) **Books of Account** or **Financial Books** and (2) **Statistical** or **Memorandum Books.**

The former class consists of those books which form integral parts of the system of book-keeping employed, and includes the Ledger, together with the books which are subsidiary to it. The Ledger is always the principal book in Double Entry book-keeping, and, as has been explained above, could be designed so as to contain within itself the whole permanent record of a trader's transactions; but, in view of the multiplicity of detail occurring in any large business undertaking, and the excessive amount of clerical labour which would be required to deal with each transaction separately in the Ledger, various labour-saving devices have of necessity been evolved by successive generations of accountants, with

the result that, in modern practice, transactions are generally grouped together in totals for the purpose of being recorded in their final resting-place on one side or the other of the Ledger.

By entering transactions in subsidiary books, or **Books of Original Entry,** much grouping in totals in the Ledger is possible, and detailed records in that book are avoided. This procedure is essential in large business undertakings, inasmuch as the entering of every transaction in duplicate in the Ledger would involve too much clerical labour.

The books of original entry commonly employed in practice necessarily differ in form to a great extent according to the nature of the business in which they are used, but such books usually fall into two classes, viz. "Cash Books" and "Journals."

A **Cash Book** is nothing more or less than the Cash Account in the Ledger, removed from the latter for purposes of convenience, and bound up separately.

A **Journal** is a book employed to classify or sort out transactions in a form convenient for their subsequent entry in the Ledger. According to the particular department of a business, or to the special type of transaction for which any particular Journal is to be used, so the name given to the book varies; a Journal kept solely to record sales is called the "Sales" Journal, or the Sales Day Book; a Journal for recording purchases is called a "Purchases Book" or Journal, and so forth.

A **Book of Account** may be defined briefly as any book which forms an integral part of the system of book-keeping employed in any particular business, and consequently includes both the Ledger and the books of original entry. On the other hand, **Statistical** or **Memorandum** books are those which are used in a business as accessories to the general system of book-keeping, and which serve to explain or to elaborate the necessarily limited amount of detailed information contained in the "Books of Account."

The books employed in a warehouse, providing detailed information as to the nature, qualities, quantities and values of the various pieces of merchandise comprising a trader's stock-in-trade are "statistical" and serve to explain or amplify the entries appearing in a trader's Sales and Purchases Accounts in his Ledger. Similarly, factory books kept to record the successive processes to which an article is subjected in the course of its manu-

facture, including records of the successive costs of these processes, are "statistical."

Statistical books obviously vary greatly, both as regards form and contents, according to the purpose for which they are used; and, being additional to the Books of Account, any attempt to outline their uses must be postponed until the student has thoroughly grasped the principles underlying the main system of accounting as employed in Double Entry book-keeping. Consequently, the remainder of this chapter and the chapters immediately following are devoted to an explanation of the Books of Account commonly used in modern commercial book-keeping.

The Ledger

The student has already been informed, in Chapter I, that the whole of a trader's book-keeping could, *in theory*, be contained within the limits of one book, viz. the Ledger, and, in the same chapter, an endeavour was made to illustrate this fact.

In a previous part of this present chapter the student has again been told that, in practice, the Ledger is the principal book in any system of Double Entry book-keeping, but that, in order to save time and labour, and keep pace with modern exigencies, the employment of various subsidiary books has become essential. The author has found that many students experience difficulty, owing to the fact that, at the outset, they are taught that, in theory, the Ledger can be made the sole repository of a trader's transactions, and then are subsequently informed that in practice this principle is not adhered to. In theoretical book-keeping, entry in the Ledger immediately follows upon the happening of each transaction. If the student will reflect a little he will realise that, in modern business, with its multitudinous daily transactions, it would be impossible to enter every transaction *as a separate item* in the Ledger, immediately that it occurs. One man only can have access to this book at one time. It is true that the whole of a trader's transactions *do* eventually appear in the Ledger, but many of them reach that book in *totals* in summarised form through the subsidiary books in which they are collected and analysed as will be explained in due course: *e.g.* sales are not entered individually in the Sales Account in the Ledger as they occur, but (through the

"Sales Journal") in monthly, or other, totals. So also with purchases. Again, some students are apt to wonder why an explanation of Double Entry book-keeping could not commence with a description of the books of original entry, and then proceed to a description of the Ledger, which is the final destination of all transactions, and this perplexity on their part is not wholly unreasonable. The fact is, however, that whatever books of original entry may be employed, they are designed simply and solely to facilitate the subsequent entering up of the Ledger and to relieve the latter of unnecessary and cumbersome detail, and to enable the work to be conveniently distributed amongst the staff. It is to the Ledger, and to the compilation of an efficient trial balance from the Ledger, that all subsidiary books gradually work up; and, although it may seem to the student at first sight to be reversing the chronological order of events in regard to a trader's book-keeping entries, it is essential to explain the Ledger (which epitomizes the general operation of the principles of book-keeping) before explaining the functions of the various books of original entry, which are subsidiary to the Ledger.

The Ledger may be briefly defined as a book in which a trader's transactions are "laid up" or recorded in a form easily accessible for future reference.

In practical modern book-keeping the Ledger does not include the Cash and Bank Accounts, which are bound up separately in the form of one or more "Cash Books"; it must, however, be clearly understood that these Cash Books are a part of the Ledger bound up separately for convenience, and require to be included in a Trial Balance (see Chapter IX) just as though they were bound up in the Ledger itself.

Regarding for a moment the Cash Book and the Ledger as forming together one "Ledger," the cardinal principle of Double Entry book-keeping, it will be remembered, is that every transaction bears two aspects, and both of these should be recorded in the two appropriate accounts contained in the Ledger, on the Debit (or left-hand) side in one account and on the Credit (or right-hand) side in the other. The **Accounts** referred to are, of course, the classified sections into which a Ledger is divided.

The effect of this essential principle may be expressed

shortly as follows: ***Every debit requires its credit, and vice versa.***

A specimen form of a Ledger account was given on p. 3.

Ledger accounts may be grouped in three classes, viz.—

Personal Accounts, recording the trader's financial transactions with his debtors and creditors, and furnishing a record of the sales or loans to, or purchases or loans from, these persons.

The other two classes of accounts are sometimes grouped under the caption **Impersonal Accounts** and consist of—

Real (or **Property**) **Accounts,** recording the trader's dealings in property (other than debts due to him), and material objects owned by him, such as Machinery and Plant, Buildings, Patents, Ships and other assets, *i.e.* *continuing* benefits received.

Nominal Accounts, recording the trader's "losses," expenses, "profits" and gains, *i.e.* benefits (usually in the form of services, etc.) which are received or yielded once for all, and are non-continuing; or, in other words, his income and expenditure, and his net worth, or (in the case of a business) the amount he has embarked in the business.* Sub-divisions of the Profit and Loss Account, such as Discounts, Rent, Taxes, Salaries, Wages, Office Expenses, etc., offer examples of Nominal Account items.

In the case of Personal Accounts, all the individual amounts or things *paid* or *sold* to any person by the trader are entered on the debit side of the Ledger account of the person who has received the benefit, the person dealt with being regarded as a *debtor* to the trader for each of these various sums, irrespective of the pre-existing relations or dealings between them.

Conversely, all sums, properties, or values, *received* by the trader from (*i.e.* yielded to the business by) any person are entered on the credit side of the account kept by the trader for the party from whom they are received. The person transferring these values or things to the trader is regarded as being the trader's *creditor* for the value of each of them, again irrespective of the position, on striking a balance, between them.

* It has already been explained that, although classified amongst the Impersonal Accounts, the trader's Capital Account is really a Personal Account between the business and its proprietor.

Students sometimes experience considerable difficulty in appreciating the essential rule that each transaction *must* be considered by itself, quite apart from any transactions with any particular person which may have preceded it. For instance, J. Brown, a debtor to the trader whose books are being written up, may discharge his debt (say £100) by a payment in cash. To record the entry of this cash payment the Cash Account must perforce be debited, and J. Brown must be credited, because the Cash Account has benefited by the cash received, and J. Brown has yielded the benefit by parting with the cash. In other words, J. Brown is shown as a creditor for this £100 in his Personal Account as kept by the trader, whereas the student is sometimes at a loss to understand how this can be, inasmuch as by the payment of this sum J. Brown, on striking a balance, becomes neither a debtor nor a creditor of the trader, the debt between them being at an end. The correct way to regard the matter is that J. Brown, when buying goods from the trader received a benefit from him and became his debtor for, say, £100; that on paying the same amount of money to the trader he yielded a benefit to him and became his creditor for £100, and that these two separate relationships to the trader cancel each other.

In the case of "Real" Accounts, all property acquired is entered on the debit side of the Ledger account, the Property Account being, so to speak, personified and regarded as having received a benefit and being a debtor for the amount invested in that direction. Conversely, when property is parted with the Property Account is credited.

"Nominal" Accounts, representing losses, are debited with all losses incurred, and may, for purposes of illustration, be regarded as if they were Personal Accounts, all sums sunk in the particular type of loss being regarded as amounts paid to the imaginary person. For example, "Wages Account" is debited with the amounts spent in wages, the business having received the benefit of the services of which wages are the measure. Since no tangible property or right continues to exist, such accounts are "loss" accounts, being expenses incurred in earning the profits. In the case of Nominal Accounts representing profits, the entries appear on the credit side of the account, and may be likened to receipts from imaginary persons. In point of fact, to be strictly

literal, the trader would head the account "*My* Office Expenses Account," "*My* Sales Account," etc.

The **Capital Account**, although scheduled amongst the Impersonal Accounts, is, as has already been explained, in reality a specialised personal account kept by the business for the proprietor of it, and shows at any time the amount which the latter has invested in the concern. In the case of limited companies this supposition becomes an actual fact.

A trader's transactions are first entered, as and when they occur, in the various books of "original entry." From the books of original entry, the necessary records in the Ledger are made, and this process is called **Posting the Ledger.**

Postings in the Ledger are made, (1) in the case of Cash Book entries, on the opposite side to that upon which they appear in the Cash Book; (2) in the case of entries from the Journal Proper, on the same side as that which is indicated in the Journal; and (3) in the case of the Sales, Purchases, and Returns Journals (Day Books) the *totals* are posted to the credit of Sales, debit of Purchases, debit of Returns Inwards, and credit of Returns Outwards, Accounts in the Ledger. The *details* comprising the totals of these accounts are posted, in each case, to the *opposite* side, *i.e.* the sales to the debit of customers, purchases to the credit of those supplying goods, and so on. This difference of treatment arises out of the fact that the Cash Book is really a Ledger Account itself, and contains debit entries, which must, to complete the "double entry," be posted to the credit of some other account or accounts in the Ledger, and *vice versa*, while the Journals, as previously explained, merely arrange the entries in a convenient form for subsequent posting, in classified totals, in the Ledger itself. It may be claimed that the usual form of Sales Journal is, in effect, the detailed Sales Account kept in a separate book to relieve the Ledger of cumbersome details. The total is entered in the Ledger and thus completes this analogy: the same remarks apply to the other detailed journals, Purchases, Returns, etc.

In view of the fact that the Cash Book is a Ledger Account which has been bound up separately, it is clear that if the balances of all the accounts in a Ledger are extracted and classified under the respective sides (Dr. or Cr.) upon which they appear in the Ledger,

the total Debit balances must agree with the total Credit balances. If this agreement fails to ensue it follows either (1) that the extraction of the balances has been done inaccurately, or (2) that the posting of the Ledger is incorrect. For instance, if an entry be posted in the Ledger twice on the credit side instead of once to the debit and once to the credit, the Trial Balance will disagree, and will show that an error exists, its location being then merely a matter of search.

As has been already indicated, the Ledger is often subdivided into several parts, bound up separately, for the convenience of the work of the account's department, or to reduce the various sub-Ledgers to a convenient size. In an undertaking of some importance, for example, the following subdivisions will be found :—(1) **Sales Ledger**, for the record of all sales to customers; (2) **Bought Ledger**, for the record of all purchases from creditors; (3) **Impersonal or Nominal Ledger**, for the accommodation of the various "Asset," "Reserve," and other accounts of a like nature; (4) **Private Ledger**, for the record of the partners' "Capital" and "Drawing" Accounts, and the Profit and Loss Account. The "Sales" and "Bought" Ledgers, again, if the accounts were very numerous, would be divided alphabetically, thus: A—K, L—Z. Or, if more convenient, the subdivisions might be arranged upon geographical lines, thus: Town Sales Ledger, Country Sales Ledger, Foreign Sales Ledger, and so on.

EXERCISES.

3A.

1. What is a Ledger? What are its uses in Double Entry book-keeping?
2. What are (*a*) Personal Accounts, (*b*) Nominal Accounts, (*c*) Real Accounts?
3. What is a Cash Book?
4. What is the object of a Journal?
5. Why are "Books of Original Entry" employed in practical book-keeping?
6. What is meant by "Posting the Ledger"?
7. What is the difference between a "Book of Account" and a "Statistical Book"?
8. What is the cardinal principle of Double Entry book-keeping?

3B.

1. What is a trader's "Capital Account," and what does its balance represent?

2. Classify the following Ledger accounts as among (*a*) Real, (*b*) Personal, and (*c*) Nominal Accounts, viz. Capital Account, Machinery Account, Telegrams and Postages Account, J. Wilson & Co.'s Account, Discounts Received Account, Profit and Loss Account, Wages Account, R. Brown (Loan) Account, Buildings Account, Bad Debts Account, Office Expenses Account.

3. In which Ledger or other accounts, and upon which side of such accounts would you expect to find the following items?—

(*a*) £1,000 paid for a plot of land.
(*b*) £50 received as commission for effecting a sale of another person's property.
(*c*) £70 paid for wages.
(*d*) £100 paid to-day to R. Jones in full settlement of an account for £104 12*s.* 6*d.* due to him two months hence.
(*e*) £200 received from J. Brown in part repayment of money lent to him.

4. What are the essentials to be attained in order that the books of a commercial concern may approach as nearly as possible to the maximum of usefulness and economy?

5. Explain the term "Books of Original Entry"; what are these books?

6. Give a specimen ruling of a Ledger account (Personal), and enter therein three entries on the debit and three on the credit side, and bring down the balance.

7. Open the necessary Ledger (or other) accounts from the following items: On January 1, John Jones had cash at the Bank, £150; freehold shop value, £1,000; a horse and cart value £110; debts owing to him, £560—viz., R. Brown, £400; J. Robinson, £160; whilst he owed £670 (viz. J. Fitter, £420; R. Roberts, £250); he also had stock of goods on hand valued at £312.

3c.

Menzies Bros. of London carry on a general agency and mercantile business; Brown, Knox & Co. of Gibraltar are a firm doing business with them. From the following particulars prepare the account of Brown, Knox & Co., as it appears in Menzies Bros.' Ledger, bringing down the balance at the 31st January.

Menzies Bros.' transactions :—

19—.
Jan. 1. Balance owing by Brown, Knox & Co., £462 5*s.* 3*d.*
„ 2. Sold Brown, Knox & Co., goods on credit, £214 9*s.* 5*d.*
„ 3. Paid R. Merton on behalf of Brown, Knox & Co., £40.
„ 4. Sold Brown, Knox & Co., goods on credit, £212 10*s.* 9*d.*
„ 4. Purchased for cash on account of Brown, Knox & Co., 3 sewing machines at £7 each, and shipped these to Brown, Knox & Co. at Gibraltar, paying freight, £4. Charge a special commission of 5*s.* on this transaction.
„ 10. Received from Brown, Knox & Co. goods returned as unsuitable, invoiced at £12 9*s.* 6*d.*, allowed them full invoice price therefor.

19—.

Jan. 11. Received from Brown, Knox & Co. cheque on the Eastern Counties Bank, Ltd., £105 10*s.* 9*d.* for credit of their account.

„ 13. Brown, Knox & Co. advise that they have remitted through the Gibraltar office of the London and Peninsular Bank, Ltd., £300 to be placed to the credit of their account, and enclose a sight draft for £500 drawn on Baring & Co. of London for their credit. This draft was duly honoured on presentation.

„ 14. Received from the London office of the London and Peninsular Bank, Ltd., the £300 referred to in the preceding paragraph.

„ 19. Sold Brown, Knox & Co. goods on credit, £39 2*s.* 4*d.*

„ 21. Brown, Knox & Co. forwarded a £200 Japanese Government 4½-per-cent. Bond for sale on their account; sold the same and received cheque from the stockbrokers, £195 10*s.*

„ 23. Brown, Knox & Co. requested Menzies & Co. to purchase on their account £200 London County Consolidated 3½-per-cent. Stock; purchased the same at par and paid the stockbroker £200 therefor.

„ 25. Paid on behalf of Brown, Knox & Co. the following viz.—

To Mrs. M. Jones, £250.
To Owen Jones, £125.
To Griffith Jones, £125.

Charge Brown, Knox & Co. a special commission of 10*s.* 6*d.* on the above payments to cover clerk's travelling expenses and time occupied in making inquiries as to the foregoing payments.

„ 29. Received from Albert Heather £15 in cash, to be placed to the credit of Brown, Knox & Co.

3D.

Open Ledger accounts with the following balances under date January 1st. Stock of Timber, £500; Cash at Bank, £600; Bill Receivable in hand, O. Child, due January 3rd, £100; Debtor, B. Nugent, £32 10*s.* R. Jones' Capital Account, £1,232 10*s.* Post by double entry the following transactions and prepare a Trial Balance upon their completion.

Jan. 1. Bought a cargo of timber from V. Oscarsson, gross, £385, less 10 per cent. trade discount. Paid V. Oscarsson by cheque £340 in settlement of account.

„ 2. Sold to Smith Bros., on credit, timber, £262 15*s.* Drew on Smith Bros. at 3 months for £200 on account of the above sale.

„ 3. Discounted Smith Bros.' draft with the Bank, being charged Bankers' discount, £2.

„ 3. Sold timber for cash, £200, paid the same to the Bank.

Jan. 3. O. Child's bill, £100, due to-day, paid through the Bank.

„ 4. Paid by cheque for office furniture purchased, £25.

„ 4. Drew from Bank £4 10*s.* in cash, and employed the same in paying wages for the week.

„ 5. Bought for cash a cargo of timber, ex. s.s. *Léonie* for £325 net.

„ 5. Paid by cheque electric light bill, £4 6*s.*

„ 6. Received from B. Nugent cheque for £32 and banked same; allowed him discount, 10*s.*

Answers.—3B (7). Capital, £1,462.

3C. Debit Balance of Account, Jan. 31st, £565 13*s.*

3D. Trial Balance Total, £1,701 15*s.*

CHAPTER IV

THE CASH BOOK—THE PETTY CASH BOOK

IT has already been explained that the Cash Book is not a subsidiary book, but is part of the Ledger bound up separately for the sake of convenience.

When the principles of Double Entry book-keeping were first applied to the methods employed in recording commercial transactions, a Ledger account was kept for the purpose of recording all receipts and payments of Cash in just the same manner as separate Ledger accounts were maintained for all other types of commercial property: in these early days no other record of Cash was made. It soon became apparent that the Cash Account greatly exceeded in bulk every other Ledger account, and, of necessity, the custom consequently arose of binding the account up as a separate book. The **Cash Book** having thus come into existence as a separate book, was henceforth used as the *sole* book in which the original entries of all cash receipts and payments were recorded. Its nature, however, as an integral part of the Ledger remained unchanged, and the items appearing in it continued to form the separate halves of twofold entries, one aspect of the transactions being recorded in the Cash Book, and the other aspect being recorded on the opposite side of the relative Ledger account, thus completing the double entry. In other words, every entry appearing on the Debit side of the Cash Book had its corresponding Credit entry in some appropriate Ledger account, and *vice versa*.

In modern practice cash entries are first made in the Cash Book from the memoranda, counterfoils, or original documents in the trader's possession, upon the debit or credit side according to their nature (receipts or payments), and the corresponding entries (to credit or debit) in the necessary Ledger accounts are made as soon thereafter as is conveniently possible.

The balance of the Cash Book, at any date, shows

the amount of money which should be in the trader's possession.

A specimen ruling of an elementary Cash Book, in its simplest form, is appended. It will be noticed that the form employed is merely that of an ordinary Ledger account—

Dr. CASH BOOK (Simple Form) Cr.

Date	Particulars.	Ledger Folio.	£ s. d.	Date.	Particulars.	Ledger Folio.	£ s. d.

The above form is designed to contain the record of receipts and payments in money, *i.e.* actual notes or coin; but if, as is now usual, and as has been indicated in Chapter II, the trader keeps none of his money in his own possession, but pays all his receipts into his Bank and effects all his payments by means of cheques, the form of Cash Book given above will serve equally well to record the trader's Banking transactions. All sums paid to the Bank in such a case are entered on the debit side, and all cheques drawn appear on the credit side; the balance of the Cash Book will show, at any date, the amount held by the Banker on behalf of the trader, *i.e.* his **Bank Balance.**

A specimen form of Cash Book, utilized to record the trader's Bank transactions, is set out below. The typical transactions entered in the form will explain themselves.

The particulars contained in the columns of this Cash Book are those which will ultimately appear in the trader's Bank Pass Book, and it will be obvious to the student that there will therefore be no need to keep a Bank Account in the Ledger.

In practical experience, certain businesses will not infrequently be met with in which the owner of the undertaking keeps the greater part of his money with his Banker, but is nevertheless obliged to retain some ready cash in hand at his office; for instance, in undertakings where the receipts from debtors are partly in the form

CASH BOOK

Dr. (Recording Bank Transactions only.) Cr.

Date	Particulars.	Ledger Folio.	£	s.	d.	Date.	Particulars.	Ledger Folio.	£	s.	d.
19—						19—					
Oct. 1	To Balance at Bank		100	0	0	Oct. 4	By *Wilson Bros.*— Cheque on account ...	16	25	0	0
" 2	" *W. Brown*— Payment on account	24	30	0	0	" 5	" *Plant and Machinery Account*— Cost of Gas Engine ...	21	50	0	0
" 3	" *R. Jones*— In settlement of account	36	20	0	0	" 5	" Balance carried down ...	√	75	0	0
		£	150	0	0			£	150	0	0
19—											
Oct. 5	To Balance brought down	√	75	0	0						

of cheques and partly in notes and coin, and in cases where occasional payments in cash are required.

To meet the needs of such businesses a composite form of Cash Book is sometimes employed, containing two money columns on each side, designed to record receipts and payments both in cash and through the Banker. Apart from the necessary difference in form there is no change whatever in the principle, or the uses, of this style of Cash Book as compared with the elementary form given above.

In this kind of Cash Book all receipts in coin or notes are entered on the debit side in the ordinary way, the amount being placed in the "Cash" money column. All payments made in cash are placed on the credit side in the "Cash" column, with their appropriate details, and payments made by cheque appear similarly in the "Bank" credit money column. Cheques received by the trader, and immediately banked by him, are entered in the Cash Book in the debit "Bank" column.

Where the trader himself pays into his Bank any sum from his office cash-box (it frequently occurs that his receipts in notes and coin are in excess of his immediate cash requirements for payments), the amount so taken

from office cash is treated as a payment made from "Cash" on the one hand and as a receipt by the "Bank" on the other hand; the sum consequently appears as a credit entry in the "Cash" column and as a debit entry for the same amount, in the "Bank" column.

Conversely, when the trader draws cash from his Bank for the purposes of replenishing his Office Cash Balance, the transaction is recorded as a payment made out of the Bank Balance and as a receipt by "Office Cash." The necessary entry is, consequently, a credit in the "Bank" column and a debit in the office "Cash" column.

A form of "two-column" Cash Book is given below, and the following specimen transactions are shown as having been passed through it—

19—.

Oct. 1. Balance of Office Cash in hand, £60; Bank Balance, £120.

„ 2. Received in cash from J. Jones, £20, and from W. Brown £10 5*s*.

Received cheque from Smith & Co., £60, and banked the same.

„ 3. Paid for wages from Office Cash, £48.

Paid from Office Cash to Bank, £35.

Drew cheque in favour of Wilson Bros. for £94 15*s*.

„ 4. Drew from Bank for Office Cash, £10.

The Cash Book is balanced off as on October 4, and the balances are then carried down.

When "Cash Sales" form part of the receipts of a business, a special column is sometimes added to the Cash Book for their accommodation, whence they are posted periodically in totals. When Cash Sales are numerous, a separate Cash Sales Book is kept, the totals of which are entered at intervals in the Cash Book when the cash is paid into the bank.

In modern practice the Cash Book is almost invariably confined to bank transactions, and thus becomes a replica of the Bank Pass Book. A separate Petty Cash Book is kept for all cash transactions and is fed by cheques, as and when necessary, from the Cash Book proper. Another commendable modern practice is the observance of the rule that all receipts must be banked —any cash requirements being satisfied from the moneys specially drawn for the service of the Petty Cash Book.

In most businesses it is customary for the trader both to allow and receive small " Discounts " (known as **Cash Discounts**), when his debtors discharge their obligations

DOUBLE COLUMN CASH BOOK

Dr.

Date	Particulars	Ledger Folio.	Cash £	s.	d.	Bank £	s.	d.
19—								
Oct. 1	To Balances brought forward	✓	60	0	0	120	0	0
" 2	" J. Jones & Co. ...	11	20	0	0			
" 2	" W. Brown	13	10	5	0			
" 3	" Smith & Co.	18				60	0	0
" 3	" Cash banked	C.				35	0	0
" 4	" Cash drawn from Bank	C.	10	0	0			
			£100	5	0	£215	0	0
19—								
Oct. 4	To Balances brought down	✓	17	5	0	110	5	0

Cr.

Date	Particulars	Ledger Folio.	Cash £	s.	d.	Bank £	s.	d.
19—								
Oct. 3	By Wages.............	42	48	0	0			
" 3	" Cash Banked	C.	35	0	0			
" 3	" Wilson Bros.	91				94	15	0
" 4	" Cash drawn from Bank	C.				10	0	0
" 4	" Balances carried down	✓	17	5	0	110	5	0
			£100	5	0	£215	0	0

NOTE.—In some businesses an additional column is added on the credit side of the Cash Book, in which numbers are inserted in red ink against the payments made. Similar numbers are affixed to the corresponding vouchers. This orderly practice is of great assistance in tracing receipts and other vouchers at subsequent dates, *e.g.* in the event of disputes, and is incidentally very helpful to the auditors. Vouchers should be filed in some orderly form, the most convenient methods being a clip file, or a Guard Book in which the vouchers are posted unfolded in consecutive order, so that dates and amounts are in clear view.

to him or he himself pays his own creditors. It is frequently found in practice that almost every receipt or payment of money is accompanied by a " Discount "

£3, representing the debit and credit totals of the "Discount" columns, are then posted respectively to the debit and credit of the "Discount Account" in the Ledger. Occasionally, in practice, the *Balance* only of the discount columns (*i.e.* the difference between their totals) is posted, but it will, in most cases, be found preferable to post the *totals* of each column in the Discount Account.

Other specimen forms of Cash Books will be given in due course to illustrate the various uses to which extra columns in the Cash Book can be put. In common with all the other books employed in modern commercial undertakings, one of the objects of a good Cash Book is to facilitate the balancing of the books and to economise labour.

The employee to whom, in a mercantile office, the work of keeping the Cash Book, and of supervising the cash transactions is entrusted is styled the **Cashier.** His duties comprise the receipt of all sums of money coming into the office and the payment of them into the Bank together with the custody of the cash kept in the office, and the drawing of cheques for signature. When the "cash" transactions are at all numerous the Cashier should make a point of balancing his Cash Book daily. It will usually be advantageous also to keep a small memorandum book showing the details composing the daily balancing of cash for future reference in case of need. It is also the Cashier's duty to obtain from the Bankers the Bank Pass Book at regular intervals, and to prepare statements showing that the balance shown by the Pass Book tallies with the balance as shown by the "Bank" columns of the Cash Book kept by him. It is always desirable that the Cashier, who handles the cash received from customers and others, should have no part in the writing up of the Ledgers wherein the customers' accounts are recorded.

The Cashier is also responsible for the correctness of all the discounts allowed to customers upon payment of their accounts, and is charged with ensuring that his employers obtain the full benefit of all the customary discount allowances obtainable from creditors when these creditors' accounts are discharged.

As indicated above one of the duties of the cashier consists in the periodical "reconciliation" of the Cash Book with the Bank Pass Book. The amount shown by

the Cash Book as remaining in the hands of the Bank at any particular time rarely tallies exactly with the balance shown by the Banker's Pass Book at the same

Dr. THREE COLUMN CASH BOOK Cr.

Date.	Particulars.	Ledger Folio.	Discount (allowed). £ s. d.	Cash (received). £ s. d.	Bank (paid in). £ s. d.	Date.	Particulars.	Ledger Folio.	Discount (received). £ s. d.	Cash (paid). £ s. d.	Bank (drawn out). £ s. d.
19—						19—					
Oct. 1	To Balances brought forward	√		60 0 0	105 0 0	Oct. 3	By Cash banked	C.		70 0 0	
,, 2	,, J. Jones	21	2 0 0	40 0 0		,, 4	,, W. Brown ...	92	3 0 0		62 0 0
,, 3	,, Cash banked	C.			70 0 0	,, 4	,, Balance carried down ...	√		30 0 0	143 0 0
,, 5	,, J. Jones	41	3 0 0		30 0 0						
			£5 0 0						£3 0 0		
			(61)	£100 0 0	£205 0 0				(62)	£100 0 0	£205 0 0
19— Oct. 5	To Balances brought down	√		30 0 0	143 0 0						

date. This apparent discrepancy arises from the fact that (*a*) short periods of time must necessarily elapse between the drawing of a cheque by a firm and its

subsequent payment by the Banker upon whom it is drawn, and (*b*) on the other hand from the similar lapse of time which must perforce often take place between the receipt of a cheque from a customer and the date upon which such cheque is eventually credited by the Banker to whom it is entrusted for collection. "Country" cheques, for example, *i.e.* cheques drawn on Banks outside London, normally take three days to be cleared. In order to explain this divergence it is necessary to construct a statement, known as a **Reconciliation Statement,** wherein the two differing balances and the outstanding items which cause them to disagree are clearly set forth. A specimen example is appended showing how this "reconciliation" is arrived at—

Example.—On December 31, the Cash Book of Messrs. Brown, Jones & Co. showed that £1,152 16*s.* 5*d.* should be in the hands of their Bankers; the latter's Pass Book, however, showed a balance of only £624 12*s.* 8*d.*, the difference being due to the following items—

1. A cheque drawn by Brown, Jones & Co. on December 29, for £7 6*s.* 5*d.* had not yet been presented to the Bankers for payment (although it had of course been entered, when drawn, upon the credit side of the firm's Cash Book).
2. A cheque received by Brown, Jones & Co. on December 29, for £535 10*s.* 2*d.*, drawn upon Aberdeen, had not yet been "collected" by the Bankers, and consequently had not yet been placed by the latter to the credit of their customer's account with them.

These differences are expressed in the following statement—

Bank Reconciliation Statement, December 31, 19—.

	£		
Balance as per Bank Pass Book	£624	12	8
Add cheque on Aberdeen paid to Bankers on December 29th but not yet collected by them	535	10	2
	1,160	2	10
Deduct cheque drawn but not yet presented .	7	6	5
Balance as per Office Cash Book	£1,152	16	5

When balancing his Cash Book (weekly or monthly as the case may be) it is usual for the Cashier to write up, in red ink, in the Cash Book itself, for future reference, the Reconciliation Statement prepared by him when agreeing the Bank columns in his Cash Book with the Bank Pass Book.

In the chapter dealing with Joint Stock Companies

(Chapter XVI) the student will learn that S. 147 of the *Companies Act*, 1948, requires every Limited Company to keep proper books, amongst these being a book to record "All sums of money received and expended by the company, and the matters in respect of which the receipt and expenditure takes place." Only a properly kept Cash Book could fulfil this requirement.

Petty Cash Book

Even in businesses where all the cash receipts are paid immediately into the Bank and, where, as far as possible, all payments are made by cheque, it is usually found necessary to keep some ready money in the office for the purpose of meeting those small disbursements which are practically inseparable from every business, *e.g.* postages, telegrams and office sundries. The sum so kept in hand is termed the **Petty Cash,** and, in practice, it may be found entrusted either to the Cashier or to a separate **Petty Cashier,** according to the amount of the work involved, to the size of the undertaking, or to the organisation of the clerical staff.

In order to relieve the main Cash Book of much cumbersome detail, a special **Petty Cash Book** is employed in which the Petty Cashier records details of the daily cash disbursements made by him. This book should be specially ruled so as to show clearly the total expenditure to date upon any particular class of business expense, in order that extravagance in any direction may be readily revealed, and it must, of course, be designed so as to show the balance which, at any particular date, should exist in coin or notes in the hands of the Petty Cashier.

The expenditure made by a Petty Cashier is usually comprised almost entirely of payments for small expenses, but cases arise occasionally when small sums are expended by him, either for assets purchased or for the debit of Personal Accounts in the Ledger. The payments made by a Petty Cashier, being numerous and of a constantly recurring nature, are more conveniently dealt with when collected into periodical totals, for subsequent posting to the debit of the Expense Accounts in the Ledger, by means of analysis columns provided in the Petty Cash Book; while the occasional payments for the

debit of Personal or Real Ledger Accounts must be posted direct to the Ledger separately and in detail.

Upon the principles thus enumerated the subjoined form of the Petty Cash Book is based.

This Petty Cash Book, as far as the debit and credit total columns are concerned (Columns T1 and T2), forms an integral part of the system of accounts just in the same way that the Cash Book proper does. In other words, it is part of the Ledger just as the main Cash Book is. It ranks as a book of original entry, and the balance of Petty Cash on hand at any time requires inclusion in the Trial Balance in order that the latter may "agree," just as was described to be the case in reference to the balance of the Cash Book (p. 35). All the sums received by the Petty Cashier from the Chief Cashier are entered directly in Column T1 (Debit Column), while all payments made by him are recorded in Column T2 (Total Credit Column); the difference between these two columns at any time, therefore, represents the balance of Petty Cash in hand, and this figure should, of course, tally with the Petty Cashier's actual holding of notes and coin.

The Analysis Columns A to H are designed for the repetition, and analysis, of the expenditure falling under the various headings as set out at the head of these columns. The posting to the Impersonal (Expenses) Ledger Account of all petty cash expenditure made is effected by posting the totals shown at the foot of these various columns at the end of any given period (usually monthly); by thus effecting a classification of expenditure simultaneously with the actual disbursement of the money, and by posting the *totals* only of the various classes of expenditure, the credits (for expenses paid) in the Petty Cash Book are offset by a moderate number of "total" debits subsequently made in the Ledger, and thus the twofold aspect of the transactions is recorded and the necessary double entry is effected with the minimum expenditure of labour. This principle of summarising transactions in order to post them to the Ledger, either in one total or in as few totals as possible, is not a new one to the student; it will be remembered that similar procedure is made use of in the case of the "discount" columns of the Cash Book: it is also used in the case of "Analysed" Purchases Books (see Chapter V) and in other books, although the exact form under which

PETTY CASH BOOK

Dr. Date	Details.	£ s. d.	Cr. Date.	Details.	Total. £ s. d.	Telegrams. £ s. d.	Postages. £ s. d.	Stationery. £ s. d.	Cleaning. £ s. d.	Fuel. £ s. d.	Gas and Electric Light. £ s. d.	Telephone Charges. £ s. d.	Sundries. £ s. d.	Ledger. Account.	Ledger. Amount. £ s. d.	Folio.
19—. Mar. 1	Cheque	50 0 0	19—. Mar. 1	Postage ...	3 6		3 6									
			„ 3	Brown & Co.	1 4 9			1 4 9								
			„ 6	Housekeeper, cleaning and sundries	2 9 4				2 6 4				3 0			
			„ 8	H. Rose (extra discount paid him)	10 9									H. Rose	10 9	896
			„ 18	Housekeeper ...	6 0 2				5 4 2	12 0			4 0			
			„ 22	Telegrams...	5 6	5 6										
			„ 26	Postage ...	1 10 0		1 10 0									
			„ 29	Gas Co. to Dec. 31st	4 2 5						4 2 5					
			„ 30	Trunk calls	7 9							7 9				
			„ 30	Sundry stationery	1 4			1 4								
	Forward £	50 0 0		Forward £	16 15 6	5 6	1 13 6	1 6 1	7 10 6	12 0	4 2 5	7 9	7 0		10 9	—
		T1			T2	A	B	C	D	E	F	G	H		I	

At the end of the month: (1) £16 15*s.* 6*d.* would be drawn from Bank and paid into the Petty Cash, thus raising the Petty Cashier's balance to the original £50. (2) The totals of Columns A to H would be debited to their relative Impersonal Accounts in the Ledger. (3) The separate amount in Column I would be debited to H. Rose's Personal Ledger Account—a journal entry having previously been passed "Discount A/c Dr. to H. Rose for discount over-deducted." (4) The analysis columns would be ruled off, a balance of £50 brought down in the debit cash column, and a fresh start made.

the principle appears must necessarily differ, according to the needs of the varying books in which it is adopted.

There remains still to be explained the use of the "Ledger" columns on the extreme right-hand side of the Petty Cash Book as given above.

These columns are designed for the accommodation of any amounts paid out of Petty Cash for the ultimate debit either of "Personal" or "Real" accounts in the Ledger, *i.e.* for payments which cannot be allocated to any "expenses account," or collocated as coming under any of the classes set out in columns A to H; items of this nature consequently require posting *individually* to some special "Asset" or other account in the Ledger. An example of a payment of this type would be the purchase, out of Petty Cash, of such small tools or parts of machinery as might be immediately required in the workshop—sums expended in this manner would be inserted, not in any of the "Expenses" columns, but in the "Ledger" column, with the designation Loose Tools Account or Machinery Account, as the case might be, and the subsequent posting would be effected direct from the "Ledger" column in the Petty Cash Book to the debit of the Loose Tools or Machinery Account in the Ledger. Of course, if the purchases of loose tools, or machine parts, were numerous, a special column would be provided for them, the total of which would be debited to the relative asset account in due course.

The plan of having a "Ledger" column in the Petty Cash Book for the accommodation of those items which need to be posted individually direct to the Ledger, is of considerable assistance to the Petty Cashier. Although at first he may be inclined to regard the unavoidable repetition, before posting, as savouring of extra and unnecessary labour, yet the duplication on the credit side of the book in one column or another of *every* payment made enables a useful check to be effected as to the correctness of the additions of Columns A to H. Since the record of every payment as and when made is repeated in the analysis columns, the latter, if added across, should, of course, equal the total of the payments appearing in the Credit Total Column (T2). It will be obvious that it is essential that the additions of the expenses columns A to H should be correctly made, as otherwise the Trial Balance would not agree.

The best method of conducting and safeguarding the

keeping of the Petty Cash is known as the **Imprest System.** Under this system a round sum, estimated to be sufficient to provide for all petty expenditure for a given period (*e.g.* a month) is placed in the Petty Cashier's hands at the outset, and, at the end of the specified period, the exact sum he has spent during that period is repaid to him, *i.e.* the sum necessary to restore the balance he has remaining in hand to its original round sum. For example, if a £50 balance were agreed upon as sufficient to cover the anticipated expenditure for a month, this sum would be drawn from the Bank upon the inception of the scheme and placed in the Petty Cashier's hands, the necessary recording entries being passed through the Main Cash Book (on the credit side) and the Petty Cash Book (on the debit side). If at the end of the first month the Petty Cashier had spent £34 5*s.* 6*d.*, as set forth in detail in the "analysis" or "expense" columns of his Petty Cash Book, a cheque for this sum drawn on the trader's banking account, would be handed to him. At the same time the totals of the analysis columns would be ruled off and posted to the debit of their respective Impersonal Accounts in the Ledger, and, with the bringing down of a balance of £50 at the commencement of the ensuing month, a fresh start in all respects would be made. The same process would be repeated at the close of each month. If the original estimate of £50 subsequently proved to be too low, or too high, for the requirements of the business, the limit would, of course, be raised or reduced as was deemed expedient at any time. In some business houses, a wise rule requires the Petty Cashier to hand over the whole of his cash balance to the Main Cashier at the close of every financial period, a fresh "imprest" being advanced for the succeeding period if everything proves to be in order. The Main Cashier, in his turn, is required to pay into the Bank any balance he may have in hand at the "balancing" date. The vouchers (receipts) for the petty cash payments should be filed for reference on the same plan as that adopted for the Main Cash Book vouchers.

EXERCISES.

4A.

From the following particulars compile the Cash Book of J. Browning (ruling the necessary form), and bring down the closing balance of Cash in hand as on February 10th.

			£	s.	d.
Feb.	1.	Cash in hand	84	6	1
,,	2.	Received from Wilson & Co. .	17	2	4
,,	3.	Paid to Harris & Sons, Ltd. .	6	0	9
,,	4.	Paid for Electric Light to Dec. 31 last	2	13	6
,,	5.	Paid for Goods bought for Cash .	19	10	10
,,	6.	Received from Wilson & Co. .	26	4	9
,,	8.	Received for old materials sold .	3	17	4
,,	9.	Lent V. Smith	5	0	0
,,	10.	Owen Roberts repaid the amount lent to him on Dec. 1st last (principal)	10	0	0
		With Interest to date . .		4	0

4B.

From the following particulars compile the Cash Book of Hall Warren & Co., ruling the necessary form so as to include "Cash," "Bank," and "Discount" columns, and bring down the balances on March 14th.

			£	s.	d.
March	1.	Cash in Hand	82	4	9
,,	1.	Balance at the Bank . . .	362	0	5
,,	2.	Paid Salaries for the Month from Office Cash	22	3	9
,,	4.	Paid to Spooner & Co., Ltd., by cheque	260	3	9
		Being allowed discount .	1	6	0
,,	5.	Received from Reid & Co. on account (by cheque paid direct to Bankers) . .	400	0	0
		Allowed them discount .	8	0	0
,,	6.	Bought goods for cash (paid from Office Cash) . .	5	4	9
,,	7.	Paid from Office Cash into Bank	50	0	0
,,	8.	Paid Sharp Bros. by cheque .	64	2	9
		Being allowed discount .	3	2	0
,,	9.	Received from Harris Bros. in coin and notes	25	0	0
,,	11.	Paid from Office Cash into Bank	20	0	0
,,	12.	Received from Chase Bros. cheque and paid same to Bank	61	9	3
,,	13.	Chase Bros.' cheque returned by Bankers, the same having been dishonoured . .	61	9	3
,,	14.	Received from Chase Bros. in coin and notes in exchange for their dishonoured cheque .	61	9	3

4C.

Rule a form of Petty Cash Book containing analysis columns for the following kinds of Petty Cash Expenditure, viz. Stationery, Postages, Telegrams, Carriage, Travelling Expenses, Cleaning, Lighting, Firing, together with a column for such payments as may require to be posted direct to the Ledger, and enter therein the following transactions, bringing down the balance on hand at the

conclusion and showing how the necessary double entry is effected throughout.

			£	s.	d.
March	1.	Received cheque from the chief cashier for starting balance, and cashed same	50	0	0
,,	1.	Paid for Postages		3	6
,,	1.	,, Telegram to Liverpool		1	4
,,	2.	,, Electric Light Bill to December 31 last	2	6	9
,,	2.	,, Housekeeper's Book for Cleaning		7	6
,,	2.	,, Housekeeper's Book for Fires		3	6
,,	3.	,, Fares to Euston		4	9
,,	3.	,, Carriage of samples sent to Brown & Co.		13	4
,,	4.	,, Postages for March 2, 3, and 4		10	5
,,	4.	,, Telegram to Paris		8	4
,,	4.	,, New Filing Cabinet (Debit Office Furniture Account)	2	10	9
,,	5.	,, Postages		1	3
,,	6.	,, Bus Fares to Charing Cross		0	4
,,	8.	,, Postages, 6th and 8th		4	11
,,	9.	,, Telegram to Aberdeen		3	4
,,	9.	,, Housekeeper's Book for Cleaning		8	9
,,	9.	,, Housekeeper's Book for Fires		3	9
,,	10.	,, New Typewriter (Debit Office Furniture Account)	12	10	0
,,	10.	,, Typewriting Paper		8	10
,,	11.	,, Postages, 9th and 10th		4	6
,,	12.	,, ,, 11th and 12th		3	5
,,	12.	,, Fares to High Barnet		4	3

4D.

1. What is a Cash Book? Compare its characteristics with those of a Ledger account.

2. Explain (*a*) the form and (*b*) the special utilities of each of the following forms of Cash Book—

(1) The Single Column Cash Book.
(2) The Double Column Cash Book.
(3) The Three Column Cash Book.

3. Explain the practical working of a Cash Book from the standpoint of the employee to whom, in a mercantile office, it is entrusted. Discuss the employee's duties and responsibilities.

4. From the following particulars compile a Statement showing how the difference between the Cash Book balance and the balance shown in the Bank Pass Book is reconciled—

	£	s.	d.
Pass Book balance, December 31	1,104	16	2
Cheques drawn prior to December 31, but not presented until after that date—			
A. B.	21	9	4
C. D.	800	0	0
E. F.	1	2	5

	£	s.	d.
Country cheques paid into the Bank on December 29, not collected until January 1 following	16	3	11
Cash Book balance, December 31 . .	298	8	4

5. Explain the working of a Petty Cash Book of "analysis" form in a case where the Imprest System is adopted. Discuss the advantages of the latter system.

Answers.—4A. Balance of Cash in hand, February 10th, £108 9*s*. 5*d*.

4B. Balances, March 14th :—Discount (Dr.), £8; Cr., £4 8*s*.; Cash, £71 5*s*. 6*d*.; Bank, £507 13*s*. 11*d*.

4C. Balance in hand, March 12th, £27 16*s*. 6*d*.

CHAPTER V

THE PURCHASES BOOK

(INVOICE BOOK, OR BOUGHT DAY BOOK)

THE purchases of goods made by a trader usually constitute a considerable part of his everyday transactions, and, in view of the fact that, in the majority of businesses, successive purchases of goods resemble each other in almost every respect, special methods of recording them concisely and economically have become the common practice.

By employing a system of grouping purchases of a like nature, as far as is possible, the trader is able to diminish the labour involved in their record in his books.

The entry necessary to be made in order to record a purchase of goods by the trader consists of a *debit* to the Purchases Account in the Ledger, coupled with a *credit* to the Personal Account of the seller, or a credit in the Cash Account, dependent upon whether the transaction took place " on credit " or " for cash." In this manner the twofold aspect of the transaction is recorded —the receipt of a benefit by the Purchases Account, and the yielding of a benefit by the seller of the goods. If every purchase was made the subject of a separate double entry, the debits to the Purchases Account would necessarily be as numerous as the transactions. In modern business this cumbersome process is impracticable, and it became essential to devise a method of reducing the labour involved in recording purchase in the Ledger. Out of this necessity, the methods described in this chapter arose.

In an ordinary business the purchases " on credit" are by far the most numerous, and these transactions involve debit entries in the Purchases Account and credit

entries in the several Personal Accounts of the various persons from whom the goods have been bought.

In order to avoid the tedious repetition of every such credit purchase in detail in the Purchases Account, a **Purchases Book** or **Purchases Journal** is employed; in this book all the purchases on credit are recorded upon their occurrence, and from it the necessary entries are made in the Ledger upon the credit side of the Personal Accounts kept by the trader to record his transactions with the persons from whom he purchases goods. At the end of any given period (usually monthly) this book is added up and the total of the purchases for the period is posted to the debit of the Purchases Account in the Ledger, and thus the twofold aspect of the transactions is recorded and the necessary double entry is completed.

The effect of this procedure is that numerous successive *credit* entries (in the Personal Accounts) are compensated for, and offset by, one *debit* entry for their total (in the Purchases Account). This principle, of offsetting numerous *individual* entries upon one side of the Ledger by one *total* entry upon the other side, is extensively employed in modern book-keeping, and obviously saves much tedious and unnecessary labour.

A specimen of a Purchases Book, in its simplest form, is appended, the transactions in which will be self-explanatory.

Column A of this form is designed to contain the date upon which a purchase takes place, while Column B contains the particulars of the goods acquired and the name of the seller, the different parcels acquired at the same time from the same person being ranged immediately underneath one another; the cost of each parcel is entered in Column D, and the total cost of the complete purchase made from the seller is extended in Column E. The total purchases are added up in the Purchases Book and carried forward from page to page until, at any desired point of time (usually each month), the total to that date is debited in the Purchases Account in the Ledger; thereupon a fresh start is made as regards the addition of the Purchases Book, and another total commences to be built up for entry in the Purchases Account in its turn.

The student will already have noted that the account to which the Purchases are debited is the Ledger account

PURCHASES BOOK (Simple Form)

Column A Date.	Column B Details.	Column C Ledger Folio.	Column D £	s.	d.	Column E £	s.	d.
19—								
Dec. 1	*Brown & Co.*—							
	Suite (Modern Sheraton)		85	0	0			
	Chairs, 4 at £1 10*s*.		6	0	0			
			91	0	0			
	Less 5 per cent. Trade Discount		4	11	0			
		36				86	9	0
,, 3	*Euston Manufacturing Company*—							
	Mahogany sideboard (Type 86, Quality B).......................................		65	0	0			
	Less 10 per cent. Trade Discount ...		6	10	0			
		21				58	10	0
,, 5	*Wilson Bros.*—							
	Mirror, 346XY	12				15	0	0
	Carried forward to next page *					£159	19	0

* At a later date the total purchases for the period are posted to the debit of the Purchases Account in the Ledger. When posting this total, care must be taken that, if it includes the purchase of assets (*e.g.* Machinery), the cost of these items is debited to the relative asset accounts, and that the balance only of the total, representing purchases of goods for re-sale, is posted to the Purchases Account.

denominated "Purchases," and that the debit entry is *not* made immediately or directly in a Ledger account headed with the word "Goods."

Judging by the work sent in at Book-keeping Examinations, it would appear that some students are still taught to open a **Goods Account** immediately they commence to record a set of transactions in the Ledger; under this method, the Goods Account is debited with (*a*) the stock on hand at the commencement of the trading period, (*b*) the purchases and (*c*) sales returns and (*d*) allowances made, and is credited with (*e*) sales, (*f*) purchases returns, (*g*) allowances received and (*h*) the stock at the end of the period; this procedure satisfies, of course, the *theory* of double entry book-keeping, but the result is obscured by such a mass of detail that it has become archaic, and the author has never seen an account of this nature in practice.

The modern practice is to open separate Ledger accounts for Purchases and Sales, for goods returned

after purchase or sale by the trader, and for the stock of goods on hand, and, when these accounts have been completed at the end of a trading period, to build up a separate account, called a **Trading Account,** by transferring to it the totals of these various "purchases," "sales," and other accounts which have been confined to recording items of one special description. In this manner the Trading Account shows in a clear and summarised form the result of the trading period. The totals of the stock at the beginning of a trading period, purchases (for the period), sales (for the period), returns (for the period), the stock at the close of the period, and the gross profit, stand out complete in themselves, and without losing their identity by being obscured in a multiplicity of detailed entries. Further information as to the nature and effect of a Trading Account, and as to the manner of its compilation, should be sought under the appropriate heading in Chapter IX. At this stage of the subject it will suffice to say that, in actual practice, the totals of the Purchases Book, and indeed those also of all the other books of original entry, analogous in their uses and method to the Purchases Book, are posted to separate and distinct Ledger accounts under their respective appropriate denominations, and that they are *not* posted to a "Goods" Account immediately they have been compiled. When the totals of these "side" accounts have been transferred to a combined Trading Account, the same effect (generally speaking) is produced as though a cumbersome "Goods" Account had been kept open throughout the trading period, but the stating of the Account is incomparably more workman-like and preferable.

It frequently occurs that a trader's business consists of two or more distinct departments, or that his purchases of goods group themselves naturally into two or more well-defined classes. In such cases the trader desires to be able to ascertain at any time the amounts of his purchases to date, classified under the departments to which they relate, or according to their nature, *e.g.* a trader whose operations embrace furs, woollen, and cotton goods will naturally desire to have his purchases of furs kept separate from his purchases of woollen goods, and the latter again kept distinct from his purchases of cotton goods; this division, too, is absolutely necessary if the trader wishes to ascertain what profit

he is making in each department, or upon each kind of merchandise in which he deals.

To meet these requirements a more elaborate form of Purchases Book is employed, in which, besides the columns included in the example given above, additional "analysis" columns are provided. These analysis columns are in each case designed to contain the purchases made for any one department, or of any one kind of goods, and the name of the particular department or sort of goods appears at the head of its respective analysis column. The analysis columns are added up and carried forward from page to page in the same manner in which the accompanying "total" column is dealt with.

At the end of any given period of time the trader will post the total purchases to date to the debit of the Purchases Account in the Ledger, which, in its turn, will be ruled in columns, each column representing a department or a particular class of goods as was the case in the Purchases Book. As has already been mentioned, and as will be explained more fully later on in this treatise, the grand total of the entries appearing in the Purchases Account is subsequently transferred, at the close of any given period, to the debit of the Trading Account. The Purchases Account in the Ledger can therefore be described as a temporary resting-place only, for the purpose of record and analysis, of the items appearing in it.

There is, of course, practically no limit to the extent to which analysis can be carried out by means of a Columnar Purchases Book, and in some modern businesses it is not uncommon to employ a large number of analysis columns. Again, where the volume of business is such as to necessitate the subdivision of the books in order to facilitate their expeditious posting, the Purchases and Sales Books are often multiplied in number, and divided alphabetically or geographically into sections, to meet the needs of the business and the staff. Where more than one Purchases Book is employed there may be either one Purchases Account in the Ledger to which the totals of these books are all posted, or, if it proves to be more convenient, more than one Purchases Account may be kept.

Specimen forms of a Columnar Purchases Book and the analysed account kept in the Ledger under the title of the Purchases Account are given on the following page. The entries appearing in the Columnar Purchases Book

are posted in the Columnar Purchases Account in the Ledger upon the assumption that no further transactions took place during the month of December.

 PURCHASES BOOK (Analysed Form) 42

Date.	Bought From.	Particulars.	Ledger Folio.	Furs. £	s.	d.	Woollen Goods. £	s.	d.	Cotton Goods. £	s.	d.	Total. £	s.	d.
19—															
Dec. 1	Brown & Co. ...	4 Jackets, seal...............		121	0	0									
		3 Necklets, sable............		45	0	0									
		2 Cases, assorted goods ...					24	6	0						
		4 Packages „ „ ...	21							18	6	0	208	12	0
„ 1	Wilson Bros. ...	10 Pieces sheeting	42							7	4	2	7	4	2
„ 1	J. Higgins	50 „ flannel	84				93	6	0				93	6	0
				£166	0	0	£117	12	0	£25	10	2	£309	2	2

NOTE.—If assets purchased, or expenses incurred, are passed through the Purchases Book, special columns must be provided for their accommodation in order to facilitate posting to the relative accounts, as they must be deducted from the total purchases posted to the Purchases Account, which should represent goods purchased for re-sale only.

The entries appearing in the above specimen Purchases Book would appear in the trader's Ledger, assuming there were no more purchases in the month of December, as follows—

THE TRADER'S LEDGER (*Debit side only*).

Dr. PURCHASES ACCOUNT

Date.		Folio.	Furs. £	s.	d.	Woollen Goods. £	s.	d.	Cotton Goods. £	s.	d.	Total £	s.	d.
19—		P.J.												
Dec.31	To Purchases for the Month.....................	42	166	0	0	117	12	0	25	10	2	309	2	2

Cash Purchases, if numerous, should be entered in a special column provided for the purpose in the Cash Book, or Petty Cash Book, and should be posted to a

Cash Purchases Account in the Ledger. If desired, the same analysis of cash purchases can be made as that adopted for credit purchases. In modern practice, cash purchases are seldom passed through the Purchases Book, they are posted direct from the Cash Book individually if few in number; in totals at stated periods if numerous, and a special column in the Cash Book has been provided for their accommodation. In modern practice, it sometimes happens that a trader's purchases are confined to a few suppliers only. In such circumstances, in order to reduce detailed book-keeping to the minimum, the invoices are filed under separate files for each supplier, until the "statements" are received at the end of the month. The total for each supplier (as shown by the checked statement) is then entered in the Purchases Journal or Purchases Summary Book kept in loose leaf form, and is posted in the usual way. Where mechanical book-keeping is in force, the machines accumulate the totals of each day's purchases as they are posted to the personal ledgers, and such totals only are entered in the Purchases Book, which is then kept in loose-leaf form.

EXERCISES.

5A.

Write up the following transactions in King & Co.'s Purchases Book, ruling the necessary form, and indicate what should be done as regards the posting of the various items and of the total in the Ledger.

Note.—All purchases stated below are "on credit."

19—.

April 1. Bought from the Western Distributing Company 1,000 tons large steam coal at 17*s*. 6*d*. per ton.

,, 13. Bought from Harris Bros. 2,000 tons large steam coal at 17*s*. 9*d*. per ton, less 5 per cent. trade discount.

,, 14. Bought from the Brown Colliery Company 850 tons large coal at 17*s*. per ton, less 5 per cent. trade discount, and 350 tons small coal at 9*s*. 3*d*. per ton, less 7½ per cent. trade discount.

,, 26. Bought from the Aberwryn Deeps Coal Syndicate 2,000 tons large coal at 18*s*. per ton, less 2½ per cent. trade discount, and 1,000 tons small coal at 7*s*. 10*d*. per ton.

5B.

Rule a form of Purchases Book, containing Analysis Columns for Clocks, Watches, and Jewellery departments, and enter therein the following transactions—

19—.

May 2. Purchased from Verner & Cie.—
3 clocks, nos. A621–623, at £4 16s. each.
10 watches, nos. B32416–25, at £3 15s. each.
} Less 10 per cent. trade discount.

„ 13. Purchased from Harris & Co.—
25 pendants, assorted types, nos. C1840–64, at a price of £38 4s. 9d. for the lot, less 2½ per cent. trade discount.

„ 18. Bought from Breguet Frères—
12 watches, nos. B32426–37, at £8 4s. 6d. each net.
4 clocks, nos. A624–7, at £16 each, less 5 per cent. trade discount.

„ 26. Bought from the New York Clock Company—
50 alarm clocks, nos. D14167–216, at 3s. 6d. each, less 15 per cent. trade discount.
25 clocks, nos. V324–48, at 12s. 6d. each, net.

50.

Rule an Analysis Purchases Book containing Analysis Columns for the following departments, viz. (1) Furniture, (2) Carpets, (3) Cutlery, (4) China and Glass, (5) Jewellery, and enter therein the following transactions—

19—.

April 1. Bought from Welton & Co., subject to trade discount of 10 per cent.—
20 doz. table-knives, J1, at 25s. 6d. per dozen.
30 doz. dessert-knives, J34, at 59s. per dozen.
15 gold bracelets, J716, at 26s. 9d. each.

„ 1. Bought from the Household Furniture Manufacturing Company, subject to trade discount of 2½ per cent.—
3 writing tables, W929 (4 ft.), at £3 0s. 6d. each.
3 fumed oak bookcases, W1042 (3 ft. 6 in.), at £4 18s. 9d. each.
Walnut dining-room suite, X1092 (tapestry), at £9 15s. 6d.

„ 2. Bought from the Midland China Corporation, Ltd.,
30 toilet services, G1342/3, at £1 5s. 6d. each.

„ 2. Bought from Hansen & Co., subject to 5 per cent. trade discount—
100 art squares Axminster carpets, assorted patterns, 9 ft. × 9 ft., at £3 0s. 6d. each.
10 Brussels carpet squares, 9 ft. × 12 ft., at £2 10s. 3d. each.

„ 3. Bought from Hervin & Co., subject to 15 per cent. trade discount—
30 18-ct. pearl and turquoise flower brooch-pins at 20s. each.
25 15-ct. gold curb bracelets, turquoise collet, at £2 each.

„ 4. Bought from the Universal Furnishing Company—
50 kitchen chairs at 2s. 6d. each.
30 bedroom chairs at 2s. 9d. each.

5D.

1. Explain why a Purchases Book is made use of in practical book-keeping.

2. Give an elementary form of Purchases Book, and explain the method of its use.

3. What is meant by an "Analysis" Purchases Book? What are its special uses and advantages?

4. Rule a form of an "Analysis" Purchases Book suitable for an undertaking consisting of the following departments—viz. (1) Groceries, (2) Provisions, (3) Wines and Spirits, and (4) Household requisites, and pass five specimen entries through this book.

Answers.—5A. Total purchases, £5,544 0*s*. 6*d*.
5B. Total purchases, £266 11*s*. 1*d*.
5C. Total purchases, £581 6*s*. 10*d*.

CHAPTER VI

THE SALES BOOK

(SALES JOURNAL, SALES DAY BOOK, OR SOLD BOOK)

THE principles which, in modern practice, underlie the recording of a trader's *Sales*, are almost identical with those described in the preceding chapter as regulating the record of a trader's *Purchases*, subject to the difference that the sides upon which Sales are entered in the Ledger (whether in the Personal or Impersonal Accounts) are, of course, the reverse of those upon which the Purchases appear.

(Inasmuch as the sales effected by a trader usually form a large proportion of his transactions, and also as sales upon credit are usually largely in excess of sales

SALES BOOK (Simple Form)

Date.	Particulars.	Ledger Folio.	£	s.	d.	£	s.	d.
19—								
Dec. 1	*Warmington & Co.*—							
	Suite of Furniture		27	10	0			
	4 Chairs at £1 each		4	0	0			
	4 Mirrors at £5 each		20	0	0			
			51	10	0			
	Less 5 per cent. Trade Discount		2	11	6			
		132				48	18	6
,, 2	*Brown Bros.*—							
	Mahogany sideboard		64	10	0			
	Less 10 per cent. Trade Discount ...		6	9	0			
		146				58	1	0
	Carried forward to the next page of the Sales Book*					£106	19	6

* This total, upon its completion at the end of the period, is posted to the credit of the "Sales Account" in the Ledger.

effected for cash, a special book of original entry, called the **Sales Book, Sales Day Book, Sold Book,** or **Sales Journal,** is employed for the record of all sales upon credit as they take place, and to facilitate the gradual

compilation of one or more totals of credit sales for subsequent posting to the credit of the Sales Account in the Ledger.

48 SALES BOOK (Analysed Form) 48

Date.	Sold to.	Details.	Ledger Folio.	Dept. A (China). £	s.	d.	Dept. B (Glass). £	s.	d.	Dept. C (Cutlery). £	s.	d.	Total. £	s.	d.
19— Dec. 1	Wilson & Co. ...	1 Tea-service		10	0	0									
		1 Set table glass					11	5	0						
		10 dozen Knives	72							12	4	0	3	9	0
„ 3	Harris Bros. ...	Assortment of china and glass goods as per Sales Carbon Memo. Book	94	84	0	0	25	0	0				109	0	0
„ 6	Brown, Jones & Co.	20 dozen Knives	41							21	6	0	21	6	0
	Carried forward to the next page of the Sales Book			£94	0	0	£36	5	0	£33	10	0	£163	15	0

The entries as set out in the above specimen Sales Book when posted into the trader's Ledger, assuming they completed the sales for the month of December, would appear as follows—

THE TRADER'S LEDGER (*Credit side only*)-

SALES ACCOUNT

Cr.

Date.		Folio.	China £	s.	d.	Glass. £	s.	d.	Cutlery. £	s.	d.	Total. £	s.	d.
19— Dec. 31	By Sales for the Month	S.J 48	94	0	0	36	5	0	33	10	0	163	15	0

The lines upon which the Sales Book is constructed, and the methods of its employment, are similar to those already described as applicable to the Purchases Book;

a simple form is sufficient for the needs of, and is found in general use in, small undertakings; more elaborate "analysed" forms of Sales Books are, however, necessary in large businesses, where the separation of the transactions into classes or departments is essential.

Sales upon credit are entered as they occur direct into the Sales Book (whether the simple or the elaborate type be used), and from thence they are posted to the debit of the Personal Accounts kept by the trader in order to record his transactions with the persons to whom he sells his merchandise.

The total of the Sales Book is carried forward from page to page, and the final total, for any given period, is posted to the credit of a Sales Account in the Ledger. As will be seen later on, the grand total of the entries appearing in the Sales Account are subsequently transferred to the credit of the Trading Account, and the Sales Account thus becomes merely a temporary resting-place for the items recorded in it. As in the use of purchases, the student is warned that sales should not be recorded in a "Goods" Account (which only results in a confused muddle of transactions), but should be recorded in a separate Sales Account in the Ledger.

Specimen forms of Sales Books (Elementary and Analysed forms) are given above, as is also an example of a Columnar Sales Account in the trader's Ledger.

Cash Sales should not be entered in the Sales Book. If numerous they should be entered in a separate Cash Sales Book, the totals of which can be carried to the main Cash Book at stated intervals, from whence they are posted to the credit of the Cash Sales Account in the Ledger. If more convenient, they can be accommodated in a special column on the debit side of the Cash Book. Cash sales can, of course, be analysed in the manner adopted for the Credit Sales. As in the case of purchases, sales may be recorded in any number of Sales Books classified according to districts, travellers, days of the week, or other partitions convenient for posting, or the division of clerical labour.

As the student will learn later, the law requires every limited Company to keep proper books in regard to "All sales and purchases of goods by the Company." The Purchases and Sales Books described in these pages fulfil these requirements.

In large modern businesses, it is frequently convenient

to employ invoice books interleaved with duplicates on which carbon copies are produced as each invoice is made out. These carbon copies can then serve as the Sales Book. Where mechanical accounting is in operation, the invoice, copy invoice, delivery note, stores instructions to make up the parcel, and other relative documents, can be made out at one operation (by the use of interleaved carbons). The copy invoices are then filed in order, and can then be made to serve the purposes of the Sales Book, being totalled (on the machine) periodically for posting to the Sales Account. For cash sales in large stores, the counter assistants are provided with Counter Sales Books, which are interleaved to provide copies for (*a*) the customer, (*b*) the cashier, and (*c*) checking purposes. Students may learn much concerning such modern methods by observation when making purchases. In other cases, special automatic tills are used for cash sales. These tills contain automatic totalling devices which provide a check upon the amount of cash taken.

EXERCISES.

6A.

1. Rule a form of Sales Book suitable for a small business, and insert therein five specimen entries.
2. Indicate briefly the lines upon which the foregoing Sales Book is worked, and in what respect it may be described as saving labour.
3. What are the consequences, in a book-keeping sense, of an incorrect addition being made in the "total" column of a Sales Book?

6B.

1. Rule a form of "analysed" Sales Book suitable for a business consisting of the following four departments, viz. Furs, Woollen Goods, Silks, and Cotton Goods, and pass through it eight transactions (two for each department), four of which are to be for "net cash," while the other four are to be subject to a trade discount of 5 per cent.
2. Indicate in what respects an analysed "Sales" Book resembles, and differs from, an analysed "Purchases" Book.
3. Give a form of "Sales" Ledger Account suitable for the analysed Sales Book ruled by you in answer to Question 1 of this exercise, and state what is eventually done with the items posted to this account.

6C.

Prepare a suitable ruling for a Tabular Sales Book to record the undermentioned items, and enter them therein—

19—.		£	s.	d.
Mar. 3.	Sold to Charles Birget & Co. 3 Chests of Tea	16	10	0
„ 4.	Sold to Robert Kilrough 6 Cases of Sugar, and allowed him 10 per cent. trade discount	18	0	0
„ 5.	Sold to James Birchets 10 Bags of Coffee	40	18	6
„ 7.	Sold to John Warner 4 Chests of Tea, and allowed him 12½ per cent. trade discount	19	17	6
„ 12.	Sold to George Coe 3 Cases of Sugar .	9	10	0
„ 14.	Sold to Frank Ball 4 Bags of Coffee, and allowed him 10 per cent. trade discount	18	6	4

6D.

Rule an analysed form of Sales Book containing columns for the following departments, viz. (1) Gloves, (2) Hats, (3) Costumes, and (4) Boots and Shoes, and enter therein the following transactions—

19—.

April 1. Sold to Brown & Co. 50 pairs 12-button length Chamois Gloves, at 2*s.* per pair net, and 5 dozen pairs 2-strap Glacé Kid Ladies' Shoes at 8*s.* 9*d.* per pair, subject to 5 per cent. trade discount.

„ 1. Sold to Wilson Bros. 10 Hats, Paris models, at £10 16*s.* the lot, and 4 Ladies' Costumes, Ready-made, at £2 15*s.* each.

„ 2. Sold to Merriman & Honeydew 2 dozen Ladies' Blouses, Silk, Assorted Colours, at 7*s.* 6*d.* each (Costume Department), and 3 dozen pairs Ladies' 3-button French Kid Gloves, Imperial Points, at 25*s.* per dozen pairs, both the foregoing sales being subject to 10 per cent. trade discount.

„ 3. Sold to Weston & Co. 1 pair Ladies' Deerskin Gauntlet Gloves, made to order, 6*s.* 6*d.*

„ 4. Sold to Myrtle, Rose & Co. 24 Fancy Frilled Pyrenees Wool Capes, Assorted Colours, at 15*s.* 9*d.* each, subject to 5 per cent. trade discount.

„ 4. Sold to Merriman & Honeydew 2 dozen pairs Ladies' Glacé Kid Walking Shoes, Patent Cap and Facings, at 10*s.* 3*d.* per pair, subject to 2½ per cent. trade discount.

„ 5. Sold to Verner & Co., subject to 3 per cent. trade discount, 15 Paris Model Hats, at £1 2*s.* each; 4 Costumes, Ready-made, at £2 2*s.* 6*d.* each.

„ 6. Sold to Myrtle, Rose & Co. 25 Scarves, assorted colours, at 3*s.* 9*d.* each, subject to 5 per cent. trade discount.

„ 6. Sold to Warren, Charles & Co. 10 pairs Ladies' Boots, "Rose" pattern, at 15*s.* 6*d.* per pair, subject to 2½ per cent. trade discount.

Answers.—6C. Total Sales, £123 2*s.* 4*d.*
6D. Total Sales, £129 14*s.* 10*d.*

CHAPTER VII

THE JOURNAL

IT has already been explained that the Ledger forms the complete and permanent record of a trader's transactions, and, regarding the Cash Book as an integral part of it, it is the Ledger which affords the necessary material for the construction, successively, of the Trial Balance and the Balance Sheet.

It has also been mentioned that, for purposes of convenient grouping of sales and purchases " on credit," and in order to facilitate their subsequent posting to the Ledger, transactions of these two types are marshalled in subsidiary books (called Sales and Purchases Journals) prior to their final record in the Ledger.

It still remains to be explained that those transactions which do not pass through the Cash Book, Sales Journal or Purchases Journal, are similarly marshalled in one or more subsidiary books, called " Journals," prior to their respective entry in the Ledger. (The Sales and Purchases Books are themselves " Journals," in the sense that they marshal entries for subsequent posting, and, except for the fact that they occupy a somewhat special position in a trader's system of book-keeping, these books could have been suitably explained in this chapter in company with the other Journals; owing, however, to the extended use to which books of this kind are put in modern practice, it has been considered advisable to explain them in detail in the two previous chapters.

It has already been explained that the Cash Book is really a part of the Ledger, bound separately owing to the large number of entries it has to accommodate. For this reason it has now become a " book of original entry." The Journals (of whatever class), together with the Cash Book, form the books of original entry in common use, and it is an accepted rule in present-day book-keeping that no transaction shall be entered in

the Ledger without having previously appeared in some "book of original entry." This fundamental rule arises out of the necessities of office organisation.

The various books of original entry can be written up by one or more clerks immediately upon the occurrence of a transaction, and these books can be subsequently handed to the Ledger-keeper to be posted by him in the trader's Ledger at his convenience. Incidentally, in the auditing of a trader's books, the fact that the record of each transaction appears in a book of original entry as well as in the Ledger permits of two auditors being simultaneously employed to check the accuracy of the trader's postings, one auditor being able to "call over the transactions" from the book of original entry to another auditor who checks each entry as it has been made in the Ledger. It will be obvious that this convenience saves an immense amount of time, especially when the books are ponderous.

Apart from the Sales and Purchases Books already dealt with, the Journals employed by a trader for the purpose of marshalling his transactions are as under—

1. **Returns Journals** (or "Books") which are used to record transactions in which goods purchased are returned to the seller on account of some defect, error, or unsuitability.
2. **Bills Receivable and Bills Payable Journals** (or "Books") which are employed to marshal transactions respecting the Bills Receivable given to the trader or the Bills Payable accepted by him.
3. **Other Special Journals,** devised and used to record transactions of one or more special types according to the particular requirements of the business in which they are employed.
4. **The Journal proper,** which is used to record, as a book of original entry, those transactions (other than cash transactions) which cannot conveniently be placed in any of the Journals previously mentioned.

The student will find that the Returns Journals and the Bills Payable and Receivable Books are explained in the next chapter; the "Special" Journals, referred to above (3), naturally vary according to the character and requirements of the business in which they are employed

or according to the nature of the transactions they are designed to record, and need no detailed mention here. It is therefore

THE JOURNAL PROPER

which remains for explanation in this place.

The generally accepted use of the "Journal proper," in modern commercial book-keeping, is, as has already been stated, merely that of a book of original entry for the record of transactions which cannot be conveniently marshalled, for subsequent posting, in any other book of original entry. Its form, however, is such that *any* transaction, whether "Cash," "Sale," "Purchase," "Return," or indeed whatever its nature, *could*, if desired, be originally recorded in this book, although the labour and inconvenience of such a proceeding in a business of any magnitude would obviously be prohibitive.

In earlier times, however, the Journal was used as the only book of original entry. It was the sole posting medium, and all transactions were entered in it in diary form, classified into debits and credits. The growth of trade, however, soon compelled traders to adopt less cumbersome methods, and sales, purchases, and other transactions were segregated in separate books as explained in previous chapters.

Judging by the work sent in by examination candidates there would still appear to be some diversity of opinion amongst teachers of book-keeping as to the practical uses of the Journal proper. Some candidates even go to the extreme length of journalising every item appearing in an exercise before preparing the accounts required by the terms of the question. The inevitable result of this proceeding is that examinees pursuing this method rarely have time to attempt more than a portion of the paper set.

In the opinion of the author, teachers will be wise to encourage students, particularly in elementary stages, to acquire facility in quickly and correctly journalising any transactions that may be put before them. Ample practice in this direction will render many matters, which often present difficulties to the student's mind, much easier of comprehension, and will, moreover, enable him to acquire the habit of deciding, with method and rapidity, upon the proper destination of the

items composing any transactions he may encounter. Probably nothing will exemplify more forcibly the twofold aspect of every transaction and the principle that every debit must have its correlative credit than the cultivation of this practice. Let the student therefore acquire the habit of *thinking in Journal entries* when confronted by book-keeping problems.

If a reference is made to Chapter XXV it will also be noted that, in the author's opinion, students will be wise, for the reasons there stated, to journalise the adjusting entries arising out of any exercise or set of accounts prepared by them for examination purposes.

Subject to the legitimate and helpful employment of the Journal in the above directions, the student should be given clearly to understand that the uses to which the Journal proper is put, in modern practice, are *strictly limited*, as will be explained hereafter.

On the Continent, the Journal proper is still extensively employed, and, in France, and other countries, under the *Code Napoléon*, its use is compulsory, and it is designed so as to contain the whole of a trader's transactions in summarised form; but in modern commercial practice in this country the employment of the Journal proper has almost reached vanishing point. Not since the beginning of the century has the author seen the old practice of journalising every transaction employed, and its continuance in that case was solely due to the obstinacy of the book-keeper concerned, who eventually died from the breakdown in health due to the overwork caused by his cumbersome and antiquated methods.

Many important business houses employ no Journal proper at all, making all the necessary adjustments by means of *direct* transfers from one Ledger account to another.

In the opinion of the author, it is advantageous to keep a Journal for the reason, if for no other, that it is often convenient to have a permanent record in concise form and chronological order of the annual adjustments, provisions, etc., made upon closing the books of a business for any given period.

It is often useful, also, for future reference in case of doubt or dispute, for such entries to be signed or initialed by the partners or by the company's officials concerned It is useful, also, for the reason that much fuller narratives relating to transactions can be inserted in the

Journal than are afforded by the cryptic entries often made by the posting clerks in the confined space provided by the Ledger. Such fuller narratives are of the greatest value when, at some future date, it may become necessary to review the transactions, since the whole reason for the entry is at once apparent. The entries passed through the Journal proper should, however, be strictly limited to the necessary record of opening entries, closing entries, adjustments, corrections, etc., or to such entries as cannot be scientifically passed through any other book of original entry. For the accommodation of entries such as the above, the Journal proper offers the only convenient posting medium.

The common form of the Journal proper is simple. It contains columns for the date of the transaction, for the details of which it is composed (including the names of the Ledger accounts in which the entry is to be debited and credited), a folio column, and a pair of money columns (Dr. and Cr.). The purpose of Journal entries is merely the lucid statement of transactions in correct form for posting in the Ledger, a process which is called Journalising.

This intention (the correct statement of transactions in proper form for posting) could, of course, be accomplished by any form of book which permitted a succinct and concise synopsis of the entry to be made, and some such form as the one appended could be used.

For example, it is desired to state, in convenient form for posting, the parting with a lorry worth £100 in exchange for a motor car worth a similar sum.

Example—

	£	s.	
Debit *Motor Car Account*	100	0	0
Credit *Lorries Account*	100	0	0
In respect of the motor car received from John Smith in exchange for my lorry.*			

* The transaction here used for the purposes of exemplification, *i.e.* the direct exchange of one commodity against another, is not to be taken as illustrative of modern commercial methods. Direct barter of one article against another is rare in practical business; transactions which are tantamount to barter in their effect being usually stated in the form of sales and purchases between the respective parties. The entries then find their due places in the customary Sales and Purchases Books.

It will be seen, however, that there is one defect in the above form, viz. that, apart from the instructions as to

debiting and crediting at the extreme left-hand side of the entries, there is nothing in the relative positions of the money sums (£100 in each case) to indicate upon which side of the respective Ledger accounts the entries are to be made. It must be remembered that, in glancing through transactions prior to posting them in the Ledger, the position of the money sums (either on the debit or the credit sides) in the Cash Book and Sales and Purchases Journals indicates, to a greater or less degree, the side of the Ledger account upon which the item is to be entered, and it is desirable that some such indication should also be afforded to the Ledger-keeper when posting from the Journal proper.

The form of the modern Journal has therefore been modified in order to include this very desirable end. Two money columns are provided in the place of the single column given above, and all entries which are to be posted to the debit in the Ledger are entered in the left-hand money column in the Journal, while all entries which are to appear in the Ledger on the credit side are placed in the right-hand money column in the Journal. At the same time and with the same object (viz. clearness in posting) the following rules are followed when compiling Journal entries, viz.—

(1) That the account (or accounts, if there be more than one) which is to be debited in the Ledger appears in each Journal entry *before* the account (or accounts) which is to be credited.

(2) That the accounts which are to be debited are shown in the Journal entry slightly more to the left-hand side than those Accounts which are to be credited.

The simple rule to remember when constructing Journal entries is that: *the account receiving the benefit must be debited, and the account yielding the benefit must be credited.* Losses are, therefore, debited, and gains credited, as the measure of the services they represent, as already explained on pages 9 and 36. Students sometimes experience difficulty in comprehending the "benefit" attached to such things as "discounts." For example, a trader pays to J. Jones £49 in settlement of a debt of £50, the £1 being discount. What "benefits" arise out of this transaction? Jones' account has received the benefit of cash (£49), which, therefore, must obviously be debited to his account. But Jones has also received a service in being paid the £49 promptly,

the measure of that service being the discount of £1. He must, therefore, be debited with the discount which represents the measure of the service received. Similarly, the trader has yielded not only cash but a service in paying promptly. Hence, the Cash Book and Discount Account must be credited respectively with the cash and the service yielded.

The form of Journal employed in commercial practice (as shown below) carries out the requirements stated above, and contains columns for dates, narration of the transaction, posting folio, and debit and credit money columns. In it the transaction explained on page 79 is set forth in proper book-keeping form.

JOURNAL

19—			£	s.	d.	£	s.	d.
Jan. 5	Motor Cars Account ...... Dr.		100	0	0			
	To Lorries Account ...					100	0	0
	For property exchanged this day.							

The transaction shown, by way of an example, in the specimen form of Journal given above is of a simple nature, there being only one account to be debited with a certain sum of money and another account to be credited with a like amount.

Transactions, however, frequently occur which are more complicated, wherein, for example, a single debit entry for a certain sum is to be equalised by two or more credit entries for different portions of this sum (the total credit entries equalling in amount the debit entry), or *vice versa*, *e.g.* the trader may exchange a horse worth £50, receiving for it a cart worth £30 and hay worth £20. In order to record this transaction properly the trader must credit his "Horses" Account with £50 and must debit "Cart" Account with £30 and "Fodder" Account with £20. The Journal entry will therefore appear as follows—

JOURNAL

19—			£	s.	d.	£	s.	d.
Feb. 5	Sundries, viz.—							
	Cart Account .... Dr.		30	0	0			
	Fodder Account .... Dr.		20	0	0			
	To Horses Account					50	0	0
	For property exchanged this day.							

Other compound entries must be treated, according to their requirements, in a similar manner; the word "Sundries" being sometimes prefixed to the accounts which are to be debited or credited if there is more than one account on either side. The modern tendency, however, is to confine Journal entries to the actual Ledger accounts affected thus—

Depreciation Account Dr.
Bad Debts Account Dr.
To Machinery and Plant Account.
B. Blank & Co.
For depreciation on machinery and bad debt written off.

A further illustration may be given, in which more than one entry is required on each side of the Journal, *e.g.* when the trader parts with a horse worth £50 and £10 worth of harness, receiving in exchange a cart worth £30 and fodder to the value of £30. The entry for this transaction will be as follows—

JOURNAL

19—			£	s.	d.	£	s.	d.
Feb. 5	Sundries Dr.							
	To Sundries, viz.—							
	Cart Account		30	0	0			
	Fodder Account		30	0	0			
	Horses Account					50	0	0
	Harness Account					10	0	0
	For property exchanged this day.							

The remark placed at the foot of a Journal entry (*e. g.* "for property exchanged" as above) is intended to furnish a concise explanation of the nature of the transaction, and is termed the **Narration.** The narration, of course, varies according to the nature of the entry to which it relates, and should be concisely explanatory but not too voluminous. The act of preparing entries in the Journal for posting is called **Journalising.**

The transactions which appear in the Journal are, as has been indicated previously, those which from their nature cannot be conveniently marshalled in correct form ready for posting to the Ledger in any of the other books of original entry; they are, in practice, consequently mainly confined to "transfers" of amounts

between any two or more Ledger accounts, together with the opening and closing entries made at the commencement and termination respectively of any particular trading period.

Entries which are merely of the nature of transfers, whether made during a trading period or at the close of it, are usually of a comparatively simple nature, and follow upon the lines previously laid down, but the records which are necessary at the initiation of a system of book-keeping, and at the conclusion of a trading period are perhaps of a somewhat special nature, and may be advantageously explained in detail.

If a person possessing certain assets, and subject to certain liabilities (the difference between these two sets of figures representing, of course, his "capital") engages *in business, the details of these Assets and Liabilities* require to be marshalled in the Journal before the necessary accounts for the respective items are opened in the Ledger. The various assets are set forth in the Journal in the debit column, and the liabilities and the capital are similarly entered in the credit column; the totals of the items on either side counterbalance each other, and the whole forms one comprehensive and self-explanatory Journal entry. It must here be mentioned that, contrary to the general rule which prohibits cash entries from appearing in the Journal (their appropriate book of original entry being, of course, the Cash Book), the balance of cash in hand with which a trader commences business is entered with the other assets on the debit side of the Journal, and is posted from thence to the Cash Book. This procedure arises because it is necessary to record the *whole* of the trader's initial financial position in the one comprehensive Journal entry, including the full figure of the trader's original capital, in order that a complete history of the initiation of the business may be placed upon record.

This principle is carried out in the subjoined example.

Example.—A. B. starts in business on January 1, 19—, with the following assets—

Cash at the Bank, £100; Stock of Goods on hand, £250; Bills Receivable, £100.

Debtors—W. Brown, £365; Holmes & Co., £45. (Total, £860). At the same date A. B. owes the following liabilities—

Gremaud & Co., £45; Beck Bros., £250. (Total, £295.)

The Journal entry necessary in order to open A. B.'s books will be as follows—

JOURNAL

			£	s.	d.	£	s.	d.
19—								
Jan. 1	Sundries Dr.							
	To Sundries—							
	Cash		100	0	0			
	Stock		250	0	0			
	Bills Receivable		100	0	0			
	W. Brown		365	0	0			
	Holmes & Co.		45	0	0			
	Gremaud & Co.					45	0	0
	Beck Bros.					250	0	0
	Capital Account					565	0	0
	For Assets, Liabilities, and Capital at the commencement of business.							
			£860	0	0	£860	0	0

At the conclusion of any given period of trading (*e. g.* at the end of a half-year) the trader usually extracts his "Trial Balance" (*i. e.* a classified list of the balances remaining on his Ledger), and proceeds to construct therefrom his Trading and Profit and Loss Accounts.

As has been previously indicated (see pp. 10 and 64) the Trading and Profit and Loss Accounts are constructed by transferring to new accounts, opened for the special purpose under the above headings, the balances of all those accounts which represent (for the trading Account) transactions in goods and (for the Profit and Loss Account) items of "loss" or "gain." The loss or gain shown on the Trading Account is itself transferred, immediately upon its ascertainment, to the Profit and Loss Account.

Transfers of this kind are affected by means of the Journal; as also are the transfers which are necessary in order to carry into effect any desired writing down or "depreciation" of any particular asset; the entries necessary to create any desired reserves; and the final transfer of the net balance of Profit or Loss (in the case only of private firms and partnerships and not in the case of Joint Stock Companies) to the Capital Account. All these matters will, however, be fully dealt with hereafter, when the preparation of the above accounts is under consideration.

Example.—The following balances, extracted from a trader's Trial Balance, are to be transferred to the Trading and Profit and Loss Accounts through the Journal, and the closing balance of the

Profit and Loss Account is to be transferred to the Capital Account.

Opening Stock (Dr.), £500; Purchases (Dr.), £5,000; Sales (Cr.), £6,000.
The Closing Stock, £400 (Dr.), is to be brought into the books.
Salaries (Dr.), £500; General Expenses (Dr.), £360; Discounts received (Cr.), £50.

JOURNAL (Closing Entries)

19—		L. F.	£	s.	d.	£	s.	d.
Dec. 31	Trading Account Dr.	131	5,500	0	0			
	To Sundries							
	viz. Stock Account	32				500	0	0
	(Stock, Jan. 1)							
	Purchases Account	36				5,000	0	0
	For Balances Transferred.							
,, 31	Sundries Dr.							
	To Trading Account	131				6,400	0	0
	viz. Stock Account	32	400	0	0			
	(Stock, Dec. 31)							
	Sales Account	37	6,000	0	0			
	For Balance of Sales Account transferred, and value of Stock on Hand as on this date.							
,, 31	Trading Account Dr.	131	900	0	0			
	To Profit and Loss Account	132				900	0	0
	For Gross Profit Transferred.							
,, 31	Profit and Loss Account Dr.	132	860	0	0			
	To Sundries							
	viz. Salaries Account ...	84				500	0	0
	General Expenses Account..................	86				360	0	0
	For Balances Transferred.							
,, 31	Discount Account Dr.	74	50	0	0			
	To Profit and Loss Account	132				50	0	0
	For Balance Transferred.							
,, 31	Profit and Loss Account Dr.	132	90	0	0			
	To Capital Account.........	1				90	0	0
	For the Net Profit for the year transferred to Capital Account.							
			£13,800	0	0	£13,800	0	0

As has already been mentioned in the earlier part of this chapter, in many modern commercial houses, the closing entries comprised in the above entry would be made by means of *direct* transfers from one Ledger account to another. The chief objection to this course is the fact that errors are more likely to creep in where this practice is followed than in cases where the whole

of the transactions are marshalled clearly before the book-keeper in the form of Journal entries. "One-sided" entries do undoubtedly arise from the practice, and are frequently difficult to trace, a tedious hunt for "initialled" items being the only means of detecting them. Another objection is the fact that the circumstances which originated the direct transfer may subsequently become obscure, whereas the narration in the Journal clearly indicates the originating cause for the entry.

EXERCISES.

7A.

1. What is a Journal? Explain the expression "Sales Journal."
2. What are the books of "original entry," and why are they so called?
3. What is the object and utility of the rule that "every transaction shall pass through some book of original entry"?
4. Apart from the Sales and Purchases Books give a list of the Journals usually employed by a trader.
5. What is the "Journal proper"? Explain the nature of the transactions which it should contain.
6. Briefly compare the present-day use of the "Journal proper" with the uses to which it was put in the early stages of Double Entry book-keeping.
7. If the debit and credit money columns of a Journal proper disagree as regards their total, what would you infer?
8. Give briefly the reasons which render the journalising of the whole of a trader's transactions quite unnecessary in modern practice.

7B.

Construct, from the following details, the Journal entries necessary to open the books of Arthur Day on January 1, ruling the necessary form. Show Arthur Day's initial "Capital Account."

	£	s.	d.
Cash at Bank	362	1	9
Stock on hand	1,471	14	2
Creditors: Eager & Co.	32	1	0
Finch Bros.	176	15	4
Bills Receivable on hand	350	0	0
Plant and Machinery	549	13	2
Freehold Premises	2,004	6	11
Amount owing to W. Brown for Loans	1,500	0	0
Debtors: W. Good	362	13	9
R. Hall	40	0	0
Cash at Office	5	2	9

7C.

Journalise the following transactions, ruling the necessary forms—

April 3. Exchanged two horses worth £35 each for one carriage worth £70.
„ 5. Exchanged fodder to the value of £60 for one horse worth £25 and seven sheep worth £35.
„ 8. Transferred from the Personal Ledger Account of A. Brown (to which account it had been incorrectly credited) a sum of £35 remitted by Brown & Co. for their credit on February 14 last; and credited the same to Brown & Co.
„ 30. Wrote £30 depreciation off "Horses" Account and £25 off "Buildings" Account.
„ 30. Wrote off as a Bad Debt £14 6*s*. 9*d*. owing by Wetherall Bros.
„ 30. Created a Reserve of £100 as a provision against Bad and Doubtful Debts, this sum being estimated to be needed in future in respect of debts owing at this date.
„ 30. Wrote £100 off Goodwill and Patent Rights Account.

7D.

The following balances, extracted from a trader's Trial Balance, are to be transferred to the Trading and Profit and Loss Accounts through the Journal; a reserve of £200 is to be raised to cover the estimated loss in connection with pending litigation, and the closing balance of Profit and Loss is to be transferred to the Capital Account. The closing Stock amounted to £1,200.

	£	*s*.	*d*.
Opening Stock	2,600	0	0
Purchases	10,400	0	0
Returns Inwards	100	0	0
Sales	13,460	0	0
Salaries and Wages	1,050	0	0
General Expenses	150	0	0
Rent, Rates and Taxes	300	0	0

Answers.—

7B. Balance of A. Day's Capital Account (Cr.), £3,436 16*s*. 2*d*.
7C. Totals of Journal, £434 6*s*. 9*d*.
7D. Net Loss, £140.

CHAPTER VIII

BILLS PAYABLE AND RECEIVABLE BOOKS. RETURNS BOOKS

In many trading concerns the transactions in Bills of Exchange (whether " Bills Payable " or " Bills Receivable " from the trader's point of view) are sufficiently numerous to necessitate the keeping of separate books of original entry in order to marshal them conveniently for subsequent Ledger posting. It is also a matter of experience that the main features of a Bill of Exchange, *e. g.* the dates of acceptance and maturity, the names of the drawer, acceptor, etc., are too numerous, in the majority of cases, for complete record in the limited space available for Ledger postings, and for this reason also the use of a separate record is desirable. As a result of these essential considerations separate Journals are, in practice, almost invariably used for the purpose of recording all transactions in bills, and the Journals so employed are commonly designed to contain much information of a statistical character in addition to fulfilling their purpose as books of original entry.

Separate books are used for (*a*) the Bills Payable " accepted " by the trader, and for (*b*) the Bills Receivable acquired by him.

When a trader " accepts " a bill (*i. e.* signs his name across the face of the bill and so undertakes to pay it at maturity) drawn upon him by one of his creditors, the necessary double entry consists of a *debit* to the creditor's Personal Account for the amount of the bill, and a *credit* to Bills Payable Account for a like sum. In other words, the creditor's account is treated, for bookkeeping purposes, as having *received* a benefit (in the shape of a bill) from the Bills Payable Account which has *yielded* the benefit. It must be borne in mind that the " acceptance " of a creditor's draft is always treated as cancelling the original debt to the extent of the amount

of the draft, and as creating a fresh obligation to the holder of the bill (not necessarily the creditor), this obligation being recorded under the account styled "Bills Payable." When it is remembered that the Bills Payable, accepted by the trader in question, pass from hand to hand in commercial circles without any notification to the acceptor of the various changes in ownership, the necessity for the Bills Payable Account at once becomes apparent, in view of the fact that the balance of the account represents, at any time, the amount owing by the trader to the world at large on his Bills Payable.

When "accepting" a draft drawn upon him by a creditor, the trader could, should he so desire, effect the necessary entry by debiting the creditor and crediting Bills Payable Account, by means of an entry in the Journal proper, and he could of course repeat this process in order to record every one of his acceptances as they occurred; as a result the credit entries of exactly similar character appearing in the Bills Payable Account would become so numerous that, in many businesses, the account would soon become unwieldy if dealt with in this manner.

If, on the other hand, these numerous separate credits to the Bills Payable Account can be replaced by one credit entry for the total acceptances accumulated during a given period, say monthly, it is obvious that economy and convenience in Ledger posting has been gained, and this desirable result is effected by means of the **Bills Payable Book.**

Consequently, in practice, all the drafts accepted by the trader are entered, upon acceptance, in the Bills Payable Book, from whence the Personal Ledger Account of the creditor is immediately debited; at the end of a given period the Bills Payable Book is added up and its *total* is posted to the credit of the Bills Payable Account in the Ledger, thus completing the record of the twofold aspect of the transactions and the double entry.

The form of a Bills Payable Book in common use appears on the following page, and three specimen transactions have been inserted therein.

When a trader's acceptances mature, they are presented for payment either at his office or, more usually, at his Banker's, according to the wording of his "acceptance" as written across the face of the bill. In

BILLS PAYABLE BOOK

Date.	Number of Bill.	Drawer.	In whose favour drawn.	For whose account accepted.	Where payable.	Dates of Bills.	Tenor.	Due date.	Folio of Ledger account debited.	£	s.	d.	Remarks.
19—													
Jan. 1	101	Brown & Co.	Brown & Co.	Brown & Co.	London	Jan. 1	1 month from date	Feb. 4	36	200	0	0	
„ 1	102	Jones Bros.	R. Hill	Jones Bros.	do.	Jan. 1	3 months from date	April 4	42	1,000	0	0	
„ 1	103	J. H. Beck	Kamenz & Co.	R. Wilson (Melbourne)	do.	Dec. 30	3 months after sight	April 4	64	785	16	2	
										£ 1,985	16	2	

Note.—If there were no further Bills Payable transactions during the trading period the double entry would be completed by crediting £1,985 16*s.* 2*d.* to the Bills Payable Account in the Ledger.

BILLS RECEIVABLE BOOK

Date.	Number.	Acceptor.	Drawer.	From whom received.	Where payable.	Date of Bill.	Tenor.	Due date.	Folio of Ledger account credited.	£	s.	d.	Remarks.
19—													
Jan. 1	81	Horsman & Co.	J. R. Wills	Brown Bros.	Midland Bank, Lombard Street	Dec. 30	3 m/d	April 2	32	614	0	0	Paid at maturity
„ 1	82	Wilson Bros.	Selves	Wilson Bros.	Lloyds, York	Dec. 31	2 m/d	Mar. 3	64	5	0	0	Do.
„ 1	83	Brown & Co.	J. Atkins & Co.	J. Atkins & Co.	Bank of England, Hull	Dec. 24	3 m/s	Mar. 29	14	500	0	0	Discounted with Bank Feb. 5
										£ 1,164	0	0	

Note.—If there were no further Bills Receivable transactions during the trading period the double entry would be completed by debiting £1,164 to the Bills Receivable Account in the Ledger.

either case, upon the payment of the sum represented by the bill, a credit entry must be made in the Cash Book (in the "Cash" or "Bank" column as the case

may be), and this entry must be posted to the debit of the Bills Payable Account in the Ledger in the ordinary course. It may sometimes happen that the debit appearing in the Bills Payable Account, representing the payment of a bill, will reach the Bills Payable Account (on the debit side) before the total entry for the bills accepted over a given period is effected upon the credit side, although the former transaction takes place long after the latter; this apparent difficulty disappears when the total credit entry for acceptances is made in due course from the Bills Payable Book, and must not be allowed to confuse the student.

The **Bills Receivable Book** proceeds upon lines similar to those already explained in the case of the Bills Payable Book, subject, of course, to the fact that the transactions it contains are reversed.

Bills Receivable as and when acquired by the trader are entered in detail in the Bills Receivable Book, and are posted from thence to the *credit* of the Ledger accounts kept for the persons from whom they have been received; at the end of a given period the total of the Bills Receivable Book is posted to the *debit* of the Bills Receivable Account in the Ledger in order to record the twofold aspect of the transactions and complete the double entry. The balance of the Bills Receivable Account should, of course, represent the bills in hand at any given date.

When any Bill Receivable held by a trader is paid by him at maturity into his Bank for collection on his behalf, a *debit* entry in the Cash Book * and a corresponding *credit* entry in the " Bills Receivable " Ledger account are made. If, by any mischance, the Bill should be returned " dishonoured," *i.e.* unpaid, it will be necessary to credit the Cash Book (in order to reverse the preceding debit to this account) and to debit the Ledger account of the person from whom he took the bill. It then remains for the trader to consider what steps he will take with regard to his debtor.† The small charges paid by the

* In cases where bill transaction are very numerous, special columns for their accommodation are sometimes provided in the Cash Book.

† The student should recognise the fact that the debtor may not be the acceptor of the bill—he may have endorsed over to the trader a bill which he (the debtor) had himself received from some third party. The debtor is, however, liable to the trader as an endorser of the bill, and it is to him that the trader will look for payment.

trader's Bankers for formally "noting," on his behalf, the dishonour of the acceptance are also debited to the Personal Account of the debtor. It sometimes happens that a debtor (if he is himself the acceptor of the bill, and is, therefore, the real defaulter), having dishonoured an acceptance in the trader's hands, and having, consequently, been debited in the trader's Ledger with the amount it represents, will offer some sort of composition, *e.g.* the immediate payment of half the amount of the bill in cash, accompanied by the debtor's fresh acceptance for the remainder of the amount. Such a transaction, if carried out, is recorded in the trader's books without any special reference to the circumstances out of which it arose, and is dealt with as an ordinary transaction, the new Bill Receivable being passed through the Bills Receivable Book and credited to the debtor in the usual way.

A form of Bills Receivable Book appears on page 90 containing three specimen transactions.

When a trader has acquired a Bill Receivable from one of his debtors it becomes possible, should he so desire, to convert it into ready money, by disposing of it to a banker or to some other person or institution dealing in Bills of Exchange. In order successfully to dispose of bills before maturity it is of course essential that the acceptor's credit should be favourably regarded in commercial circles. Naturally the trader will not receive, when selling a bill maturing several months ahead, the full amount which will be payable at its maturity; the purchasing banker will require some profit in the way of interest upon the amount advanced by him in accommodating the trader, consequently, when buying the bill, the purchaser will make a deduction from the face value ultimately receivable. This deduction is termed **Discount**, and is computed as interest upon the face value of the bill from the date of its purchase (or its "discount") until the date upon which it is payable, at such rate per cent. per annum as the credit of the acceptor, and the general condition of the money market, and the current "Bank Rate," will justify the purchaser in demanding. For example, if a trader, on January 1st, receives A. Brown's acceptance for £100 maturing on March 4th (*i.e.* March 7th, allowing for three days of grace), and sells this bill subject to discount to his banker on January 4th, at 4 per cent.,

the discount charged will be the equivalent of 62 days' interest on £100 at 4 per cent. per annum, *i.e.* 13*s.* 7*d.* Although, from long usage, the term "discount" is applied to bankers' charges in these transactions, it will be seen that they are really interest.

The banker, consequently, credits the trader with £99 6*s.* 5*d.* in exchange for the bill for £100, and this transaction will appear in due course in the trader's Pass Book in one of two ways, according to the custom of the particular bank in question. The practice of some banks is to credit their customer with the net amount (£99 6*s.* 5*d.*) realised by the sale of the bill, while other banks prefer to credit their customer with the face value (£100), debiting him simultaneously with the discount (13*s.* 7*d.*); the effect of course is the same in either case.

The trader who disposes of a Bill Receivable by discounting it with his bankers should record the transaction in his books according to the latter of the two methods adopted by bankers as described above; and this rule holds good in every case, whether his banker has employed this method in connection with the discount of a bill, or the alternative procedure.

In the example given above the trader should consequently *debit* his Cash Book (in the "Bank" column) with the face value of the bill (£100), posting this item at the same time to the *credit* of the Bills Receivable Account in the Ledger in manner similar to that adopted where a Bill Receivable is paid at maturity. In this case, the Bank Account has *received* a benefit in the shape of a bill for £100 from the Bills Receivable Account, which has *yielded* the benefit by handing over the bill. Here once again, therefore, is an old rule of "benefits" yielded and received.

In order to record the amount of the discount (13*s.* 7*d.*) a credit entry should be made in the "Bank" column of the Cash Book, which should be posted to the debit of Banker's Discount or Bank Charges Account in the Ledger. The discount is the measure of the service yielded by the banker in providing funds before the due date of the bill, and must, therefore, be credited to Cash (*i.e.* the Bank column in the Cash Book), and debited to the service account headed with the appropriate caption to indicate the nature of the service, *i.e.* Bank Charges.

The discount charge made by the banker in connection with the Bill Receivable bought by him from the trader must not be confounded either with the "cash discount" allowed by the trader upon payment made to him by his debtors, or with any "Trade discount" which may be deducted from the nominal catalogue price of goods sold; consequently it must not be placed in the "Discounts" column in the Cash Book. The discount deducted when selling a Bill Receivable corresponds with the interest paid to a bank in return for a loan, and should therefore be grouped with other "Bank Charges."

The "remarks" columns on the extreme right-hand side of the Bills Receivable and Bills Payable Books are intended for the insertion of any useful notes regarding the fate or history of any particular acceptance; in the case of Bills Receivable which are discounted, a memorandum of their having been thus disposed of should be placed in the "remarks" column, and the same course should be adopted in the case of any Bills Receivable which have been returned "dishonoured" at maturity.

Returns Books

It frequently happens that, when a trader has purchased a quantity of goods, either for use in manufacturing or for immediate re-sale, portions of the goods supplied are found, upon delivery, to reveal some defect, or prove to be unsatisfactory in some respect; *e.g.* goods may arrive having been damaged in course of transit, or, where bought in bulk, portions of them may be inferior in quality to the type of goods contracted for, or they may prove to be "not up to sample."

In such cases the trader usually at once returns the unsatisfactory goods to the firm from whom he has bought them, claiming at the same time an allowance equal to their full invoice value. Where the selling firm is one of good reputation, and is desirous of keeping the trader's custom, this allowance will usually be readily conceded.

It consequently becomes necessary to provide a special book of original entry to record these returns by the trader, known as the **Returns Outwards Book,** or **Purchases Returns Book,** in which these returns can be

marshalled in proper form for subsequent posting to the Ledger.

A return by the trader to the seller of goods found to be unsatisfactory is, in effect, equivalent, from a book-keeping point of view, to a re-sale of the goods to the original seller, this re-sale taking place at the original agreed cost of the goods to the trader, and it is upon these lines, therefore, that the book-keeping record of the " Return " is framed. In other words, the original transaction is allowed to stand in the Purchases Book, irrespective of the fact that some of the goods are subsequently " returned," and the " Return " in question is treated in due course as a special kind of sale (*i.e.* a re-sale).

The **Returns Outwards Book** follows upon lines almost precisely similar to those employed in the Purchases Book, as is obviously necessary, in view of the fact that the entries in the former book are intended ultimately to reverse certain entries in the latter. The entries in the Returns Outwards Book are posted *in detail* to the *debit* of the original seller's accounts in the trader's Ledger since he receives the benefit, and the periodical totals of the returns are posted (usually monthly) to the *credit* of the Impersonal Ledger Account, headed " Returns Outwards " (recording the yielding up of the benefit). It will be remembered that the purchases are posted in the Ledger upon opposite sides, viz. to the *credit* of the seller's Personal Account (in detail) and to the *debit* of the Purchases Account (in total).

It was explained when dealing with the record of purchases, that simple forms of Purchases Books are met with as well as the more complex " analysed " forms, examples of which were given: so also both simple and complex types of Returns Books are met with. It will, in fact, probably be obvious to the student that whichever form of Purchases Book has been adopted must be complemented by a precisely similar type of Returns Outwards Book in order that harmony of system and analysis may be maintained throughout.

Specimen forms of Returns Outwards Books are appended, an illustration being given both of the simple and complex types, and these books may be taken to correspond (as Returns Outwards Books) to the two types of Purchases Book given as illustrations on pages 63 and 66. The entries appearing in these specimen

books, it is thought, do not require any fuller explanation.

RETURNS OUTWARDS BOOK (Simple Form)

Date.	Particulars.	Ledger Folio.	£	s.	d.	£	s.	d.
19—								
Jan. 1	*Brown & Co.*— 2 Bales woollen goods damaged in transit	84				28	10	0
„ 10	*Wilson Bros.*— 2 Pieces cotton prints		10	0	0			
	3 Pieces silk not up to sample................	36	7	5	0	17	5	0
	Carried forward					£45	15	0*

* On the supposition that no further Returns of Goods were necessary during the period (usually a month), £45 15s. 0d. would be posted to the credit of the Returns Outwards Account in the Ledger. If any trade discount had been allowed on the original invoice, the appropriate amount would be deducted from the above entries.

Where an analysed form of Returns Outwards Book is used the Returns Outwards Account in the Ledger should be ruled in columns corresponding with the departments, or scheme of sub-division, adopted in the Purchases and Returns Books, just as the Purchases Account is ruled to correspond in this manner on page 66. The necessary ruling for the Returns Outwards Account is identical with that on page 66, except that the account is on the credit side of the Ledger instead of on the Debit side, and the title of the account is, of course, appropriately changed.

Just as a trader may find it necessary to return goods to the persons from whom he has purchased them, so, in his turn, and for similar reasons, it frequently becomes necessary for him to receive back some of the goods sold by him to his customers.

Having agreed to the return of the goods in question, a **Credit Note** * (usually printed in red ink) should be sent by the trader to each customer returning goods, setting out the value at which such goods have been taken back. It is, of course, necessary that the credit allowed should take into account the trade discount deducted from

* In cases where returns are infrequent, a common practice is to employ the trader's ordinary invoice form stamped in red "**Credit Note**" by rubber stamp.

the original invoice for the goods, a portion of which has subsequently been returned, as in the example below :—

RETURNS OUTWARDS BOOK

Date.	Particulars.	Ledger Folio.	£	s.	d.	£	s.	d.
19—								
Jan. 5	*Giles & Co.*—							
	2 Pieces cotton prints		12	0	0			
	3 Pieces silk not up to sample		8	0	0			
			20	0	0			
	Less Trade discount	94	2	15	0			
						17	5	0

Credit notes are sometimes bound in perforated books, with counterfoils to record particulars. In other cases, carbon copy-books are employed for the same purpose.

The forms of books used to record such **Returns Inwards, or Sales Returns,** are almost identical with those employed to record " Returns Outwards," subject, of course, to the fact that the entries contained therein are posted in detail to the *credit* of the person by whom they have been returned, and that the total (for the given period) is *debited* ultimately to a Returns Inwards Account in the Ledger.

As was explained to be the case in connection with Returns Outwards, simple forms of **Returns Inwards Books** are met with, as well as the more complex analysed forms, and in conjunction with the latter, an analysed form of Returns Inwards Ledger account is found in use, just as was stated to be the practice in reference to " Sales," " Purchases," and " Returns Outward."

It will hardly be necessary to point out that in every case the form of the Returns Inwards Book must complement the form of the Sales Journal in use.

Specimen forms of Returns Inwards Books (simple and complex) are appended, the entries in which will, it is thought, prove to be self-explanatory.

The form of analysed Returns Inwards Ledger Account to be employed in conjunction with the analysed Returns Inwards Book follows upon lines identical with the ruling set out on page 71 for the " Sales Account," subject, of course, to the alteration of the heading of the account

E

and the reversal of the sides of the Ledger upon which the items appear.

RETURNS INWARDS BOOK (Simple Form)

Date.	Particulars.	Ledger Folio.	£	s.	d.	£	s.	d.
19—								
Jan. 2	*Harriman Bros.* 30 Bags coffee .... (Returned as out of condition)	41				75	0	0
2	*Buckley Bros. & Co.*							
	1 Bag cocoa		2	10	0			
	25 Bags coffee		60	0	0			
	(Returned as not up to sample)	61				62	10	0
	Carried forward					137	10	0*

* On the supposition that no further transactions took place during the period (*e.g.* a month), £137 10*s.* 0*d.* would be posted to the debit of the "Returns Inwards Account" in the Ledger.

In some cases, in lieu of the goods being returned, it is agreed that the seller shall make some proportionate allowance to the purchaser. Such "allowances" are conveniently entered in the Returns Book, which may then be styled Returns and Allowances Book. It is hardly likely that the allowances would be sufficiently numerous to warrant the opening of a separate book. Such "allowances" for damaged goods, or inaccurate delivery, or similar causes of complaint, must not be confused with discounts allowed for prompt payment.

EXERCISES.

8A.

Rule a form of Bills Receivable Book for the use of Viner & Co., and enter therein the following bills received—

19—.

April 3. Received from Harris Bros., accepted by them under date April 2nd, the 3 months' sight draft for £1,000 drawn by ourselves (Viner & Co.) in our own favour. Payable at the National Provincial Bank, Norwich.

„ 7. Received from Wilson & Co. a draft, due April 25th, dated January 22nd, drawn by them upon Child Bros. for £150, in their own favour, the same being accepted payable at the Bank of Ireland, Dublin.

RETURNS OUTWARDS BOOK (Analysed Form)

Date.	Returned to.	Particulars.	Ledger Folio.	Furs. £	s.	d.	Woollen Goods. £	s.	d.	Cotton Goods. £	s.	d.	Total. £	s.	d.
19—															
Dec. 5	Brown & Co.	2 Jackets, seal, moth-eaten	21	60	10	0							60	10	0
„ 5	Wilson Bros.	2 Pieces sheeting, soiled	42							1	8	10	1	8	10
		Carried forward ...		£60	10	0				£1	8	10	£61	18	10

NOTE.—On the supposition that no further "Returns Outwards" took place during the period (*e.g.* the month), £61 18*s.* 10*d.* would be posted to the credit of the "Returns Outwards Account" in the Ledger.

RETURNS INWARDS BOOK (Analysed Form)

Date	Returned by.	Particulars.	Ledger Folio.	Furs. £	s.	d.	Woollen Goods. £	s.	d.	Cotton Goods. £	s.	d.	Total. £	s.	d.
19—															
Dec. 6	Horniman & Son	4 Pieces sheeting	34							12	0	0	12	0	0
		2 Cases of fancy goods, returned as unsuitable.													
„ 8	Menaggio Bros.	1 Package assorted skins, poor colour	36	37	15	0							37	15	0
„ 9	Gremaud & Cie	1 Bale woollen goods torn in transit	49				26	16	0				26	16	0
		Carried forward		£37	15	0	£26	16	0	£12	0	0	£76	11	0

NOTE.—On the supposition that no further transactions took place during the period (*e.g.* the month), £76 11*s.* 0*d.* would be posted to the debit of the "Returns Inwards Account" in the Ledger. If trade discount had been allowed from the original invoices for the above goods, discount at the same rate would be deducted from the above entries.

19—
April 15. Received from Salviati Frères a draft dated April 13th, due 3 months after date, drawn by Michel & Cie upon the Banque d'Avignon, Avignon, and accepted by the latter payable at the British & Foreign Banking Company, Ltd., Lombard Street, London, for £500.

8B.

Rule a suitable form of Returns Outwards Book for John Gill, containing columns for Tea, Coffee, and Cocoa departments, and pass the following transactions through the same—

19—.
June 1. Returned to Vesey & Son 5 chests of tea, invoiced at £10 per chest, as not up to sample.
,, 4. Returned to Warren Bros. 25 bags of coffee, invoiced at £2 10*s*. per bag (subject to 5 per cent. trade discount), and 3 bags of cocoa, invoiced at £3 per bag net, the same having been injured by damp during transit.
,, 15. Returned to V. Massey 5 bags of coffee, invoiced at £2 5*s*. per bag net, owing to insufficiency of contents.
,, 19. Returned to Warren Bros. 3 bags of cocoa of inferior quality, invoiced at £2 per bag (not up to sample), and 2 bags of coffee, invoiced at £3 each (in excess of quantity contracted for).

8C.

1. What is the special utility of a Bill Receivable given in discharge of a debt between traders, (1) as regards the person drawing it, (2) as regards the acceptor?

2. Explain the manner in which a Bills Payable Account in the Ledger is constructed, and briefly describe the entries appearing in it on either side; in what book would you expect to find the details in explanation of the balance appearing at the close of a year on the Bills Payable Account in the Ledger?

3. A. B. receives a bill from C. D., one of his debtors, accepted by the latter; A. B. discounts this bill with the Union Banking Company, Ltd.; explain the entries necessary in A. B.'s books in order to record these transactions.

4. Explain the nature of, and the difference between, "Returns Inwards" and "Returns Outwards"; give two examples of causes for which a trader may "return" to the seller goods purchased by him from the latter.

5. Distinguish between (1) Trade Discount, (2) Cash Discount, (3) Banker's Discount, and explain the circumstances in which these types of discount arise in the course of a trader's operations. Show how they are recorded.

6. Explain the uses of the "Returns Outwards" Account in a trader's Ledger; what eventually becomes of the balance upon this account?

7. A. B., a trader, holds a bill for £100 accepted by Y. Z.; the bill is paid into A. B.'s bank for collection at maturity and is returned dishonoured. What entries must be made in A. B.'s books

(1) for the amount of the bill, (2) for the charge for "noting" (1*s*. 6*d*.)?

8. Y. Z. subsequently pays A. B. in cash half the amount of the bill described in the preceding question, together with the noting charges, and hands him a fresh acceptance for the balance; show how these transactions should be recorded in A. B.'s books.

8D.

Rule a form of Bills Payable Book for the use of Smith & Co., and enter therein the following Bills Payable accepted by them. All bills are made payable at the Fleet Street Branch of the Westminster Bank.

Oct. 25. Accepted Michael Frères' draft (to be charged to their account) at 30 days' sight, for £500, in favour of Lucien Ignace & Cie.

,, 25. Accepted the Glamorganshire Tinplate Works', Ltd., draft for £326 19*s*. 4*d*., at 3 months from date thereof (Oct. 22nd), in favour of themselves and for their account.

,, 26. Accepted, for account and on behalf of the Chicago and Southern Packing Company, a draft at 3 months after sight, drawn by their London agents (the Greenwich Importing Co., Ltd.) in favour of E. V. Harris Bros., Incorporated, for £1,000.

,, 27. Handed to W. Dobson & Co. our acceptance, dated to-day, in their favour for £100, at 3 months date, in settlement of the balance owing to them.

,, 28. Accepted a bill payable at 3 days after sight, drawn by the Eastern Townships, Ltd., of Calgary, for £250, in favour of the Canadian Banking Company; this draft is to be charged to Beavis & Co., Ltd., of London.

Answers.—8A. Total of Bills Receivable Book, £1,650.
8B. Total of Returns Outwards Book, £141 12*s*. 6*d*.
8D. Total of Bills Payable Book, £2,176 19*s*. 4*d*.

CHAPTER IX

THE TRIAL BALANCE. TRADING AND PROFIT AND LOSS ACCOUNTS

A **Trial Balance** is a classified list of the balances appearing, at any given date, in the Ledger or Ledgers before the closing entries have been made. In extracting this list of balances the Debit and Credit balances are separated by being placed in their separate and appropriate columns.

The form of Trial Balance in general use is as follows.—

TRIAL BALANCE

Ledger Folio.	Name of Account.	Dr.	Cr.

It is useful, in some cases, to extract the Trial Balance in four columns: A debit and credit column being provided for "Trading" and "Profit and Loss" items, and debit and credit columns for "Balance Sheet" items. If the Ledgers employed are numerous a separate schedule of the balances of each ledger should be taken out, and the totals only of the "Sundry Creditor," and "Sundry Debtor" balances be carried to the main Trial Balance, otherwise this latter document will become unwieldy.

When entering balances in a Trial Balance, a considerable number of examination candidates enter the *gross totals* of the Debit and Credit sides of each Ledger account instead of the *balance only* of the account in its appropriate column. The author has only seen the former method in actual practice on very rare occasions, and

students will be wise to bring themselves into line with modern methods by showing *balances only* in any Trial Balances they may have to prepare.

In every Trial Balance the total of the Debit balances should agree with the total of the Credit balances, and unless this agreement occurs it must be assumed that a mistake has been made either in the Ledger, the books of original entry, or in the compilation of the Trial Balance itself. The fact that, in any given case, the total Debit and Credit balances appearing in the Trial Balance do agree, is *prima facie* proof that the postings are arithmetically correct, but does not necessarily furnish conclusive evidence that the whole of the book-keeping has been correctly accomplished, for some of the errors described on pp. 105–107 may have been committed without necessarily upsetting the arithmetical balance of the books. Briefly put, the agreement of a Trial Balance merely proves that there is a debit for every credit, behind which agreement errors of omission, commission, and of principle may yet remain undiscovered. In practice, however, the agreement of the totals of the Trial Balance is generally taken to indicate that the work has been done with an ordinary degree of accuracy, and, unless some error comes to light subsequently to falsify this assumption, the attainment of an "agreed" Trial Balance is usually looked upon as practically conclusive proof of the accuracy of the books.

A Trial Balance is usually prepared at the end of any given trading period (*e.g.* at the end of a half-year or year), although, in some commercial concerns, where special circumstances exist to render such a course advisable, monthly, fortnightly, or even daily "balances" are effected. The various methods of "machine accounting" render frequent balancing comparatively simple. In an ordinary small trading concern, however, "balancing" frequently coincides only with the end of the trading period.

Prior to the preparation of a Trial Balance the totals of all the Journals (*e.g.* "Sales," "Purchases," etc.) must be compiled and posted to their respective Ledger accounts, although, in practice, the posting is not always done in cases where a Trial Balance is prepared at a date other than the end of a fixed trading period. If these Journal totals are not actually posted in the Ledger they must be taken into the Trial Balance as if they had been

so posted. In view of the fact that the Cash Account is a Ledger account, bound up separately, the balance of the Cash Book ("Cash" and "Bank") must also, of course, be included in the Trial Balance. The same remark applies to the balance of the Petty Cash Book, in cases where the latter has been kept upon the lines laid down in Chapter IV.

A specimen Trial Balance is appended, the figures contained in which have been subsequently used as a basis for the preparation of the Trading and Profit and Loss Accounts, illustrated later on in this chapter, and for the Balance Sheet explained in the following chapter.

THOMAS ROBINSON.

TRIAL BALANCE, December 31, 19—

Ledger Folio.	Name of Account.	Dr. £	s.	d.	Cr. £	s.	d.
5	Capital Account				2,054	16	1
9	Freehold Premises	2,700	0	0			
16	Stock (Jan. 1)	1,294	15	0			
31	R. Wilson & Co.	715	3	1			
61	Browning Mfg. Co., Ltd.				1,024	13	9
24	Purchases Account	6,932	17	4			
84	Sales Account				9,846	12	4
121	Returns Inward	36	13	7			
36	Discounts allowed	101	3	9			
49	Bills Receivable	3,760	0	0			
82	Bills Payable				1,735	10	0
201	Salaries	437	10	2			
97	General Expenses	315	14	6			
142	Rates and Taxes	180	4	9			
187	Fixtures and Fittings Account	125	0	0			
47	R. Buckley (Loan Account)				3,000	0	0
62	Interest Account	150	0	0			
C.B.							
114	Cash at Bank	895	6	11			
114	Cash in Hand	14	3	1			
		£17,661	12	2	£17,661	12	2

NOTES. The value of the Stock on hand on December 31st = £426 17*s*. 2*d*.
Expenses due December 31st, but not yet paid = £10.
10 per cent. depreciation is to be written off the Fixtures and Fittings Account = £12 10*s*.

It will be observed that the total Debit and Credit balances appearing in the above Trial Balance agree, and, as indicated above, an inference as to the probable correctness of the work consequently arises.

It has already been explained that the two sides of a Trial Balance may disagree owing to errors of varying kinds; when the totals of the Debit and Credit balances fail to agree, the cause of failure should always be sought

for before proceeding further with the book-keeping. The author has known an apparent discrepancy of two-pence to cover errors of a quite serious amount.

In extreme cases, it is sometimes impossible to obtain a Trial Balance, the two sides whereof agree, without an unwarrantable expenditure of time, and in such event, in practice, an agreement is sometimes forced by making a one-sided entry in some Ledger account, preferably in the "Suspense" or "Difference in the Books" Account. Such a proceeding, however, should not be resorted to in any save extraordinary circumstances, and, even in these cases, it must always reflect upon the character of the book-keeping, and is an entire departure from the strict principles of Double Entry. Given time, patience, and accuracy, every Trial Balance *can be made to agree* legitimately in the ordinary manner. Some examination candidates, when they find that the accounts they have prepared do not "balance," assume that the question indicates that there was a "difference in the books" which they proceed to embody in the accounts. Candidates will be safe in assuming that examination exercises demanding the preparation of a set of accounts *do balance*, and that if they fail to achieve this result, some error has been made in their work.

In seeking for the error which has caused any particular Trial Balance to disagree, the book-keeper should first satisfy himself that the Trial Balance itself has been correctly compiled from the Ledger, and that its extraction and addition are correct. If this examination fails to disclose the cause of the difference, the error must be sought for in the Ledger itself, and in the books of original entry.

Various types of error may occur, some of which upset the "balance" of the books whilst others do not. Book-keeping errors have been described as consisting of those of "omission, commission, principle, and compensation." The tag is an old one but it will serve.

Errors of Principle probably have the most serious effect on the accuracy of the results shown by the accounts, although frequently they do not affect the "balance" of the books. Errors of this type are difficult to locate, and usually consist of failure to differentiate between Capital and Revenue: *e.g.* a cigarette machine costing £1000 was debited to Purchases Account instead of to Machinery and Plant

Account; this error did not affect the "balance" of the books but it resulted in the under-statement of the Asset Account in the Balance Sheet by £1000 and an under-statement of the net profit by a like amount.

"*Compensating errors*" are also frequently very difficult to trace. As the term suggests, they consist of errors "balanced," or compensated, by other errors of equal amount: *e.g.* an error of £10 on the debit side of some account has been compensated by an error of the same amount on the credit side of some other account. Such errors do not, of course, upset the agreement of the Trial Balance.

Errors of omission are naturally difficult to trace, consisting as they do of items entirely omitted from the books, such as invoice amounts, accrued liabilities, final adjustments, and the like. Such errors do not affect the "balance" of the books, but they vitiate the accuracy of the results shown by the accounts. In order to avoid such errors, careful scrutiny should be made of the overhead charges, such as salaries, interest, rent, etc., and of the invoices representing goods received just prior to the close of the year and taken into stock. Suppose, for example, goods of the value of £250 were received on December 30th and taken into the stock valuation as on December 31st, and no invoice had been entered in the Purchases Book. Then "Purchases" would be under-stated in the Trading Account by £250, and consequently the net profit would be over-stated by that amount.

Errors of Commission are the most common, and usually consist of incorrect postings, additions, transfers, and the like. Errors in this category upset the "balance" of the books, and frequently take time to locate, but careful checking of the books should disclose them. Usually they arise from (1) incorrect postings, or items left unposted; (2) postings to the wrong side of a Ledger Account (which will throw out the "balance" by double the amount of the error); (3) incorrectly carrying forward from one page to another the Ledger balances, or the totals of the page addition of the Sales, Purchases, or Returns Book; (4) incorrect extraction of the Ledger balances (one side of a Ledger account may be incorrectly added and thus result in an incorrect balance); (5) alteration of a figure in a subsidiary book after the posting to the Personal Account has been

made; (6) incorrect extension of figures from the inner to the outer columns of the books of account; (7) incorrect calculations—though this last type of error will not affect the balance; (8) transposition of figures in posting, *e.g.* £5 4*s*. 9*d*. posted as £9 4*s*. 5*d*., or £10 4*s*. 0*d*. posted as 10*s*. 4*d*.

If the "difference in the books" is a round sum, *e.g.* £10 or £100, the probability is that it consists of an error in arithmetic, *e.g.* in additions of totals, incorrect deductions, or a figure carelessly placed in the wrong cast column. If the "difference" is an uneven figure, it probably results from an omission of one side of an entry, an incorrect posting, or the entry of an item twice over, in which case an item of the exact amount of the error should be sought. Frequently an uneven "difference" represents two or more errors operating in opposite directions. An item which remains "unticked" when the checking has been done may reveal the error which is being sought. The above remarks will confirm the statement already made, that a "balanced" Trial Balance does not necessarily guarantee that errors such as those of "omission" and "principle" do not exist.

The Trading (Manufacturing) and Profit and Loss Accounts

Having agreed the Trial Balance of any particular set of books, the next step towards a final statement of the trader's financial position is the ascertainment, by means of a Trading or Manufacturing Account, and a Profit and Loss Account, of the net result of the trading for the period, as regards the profit made or the loss sustained.

The trader could, of course, ascertain the trading results achieved by preparing a single account, but in modern practice, the account showing the results of a trading period is prepared in three sections—

(*a*) The Trading, or Manufacturing, Account showing the *gross* profit or loss for the period;
(*b*) The Profit and Loss Account showing the real, or net, profit or loss for the period, and
(*c*) A second section of the Profit and Loss Account, called the Appropriation Section, showing how the profit for the period has been appropriated.

The captions "Trading Account" and "Manufacturing Account" are often used as if synonymous. The former term should be confined to accounts dealing with goods purchased in a finished state for re-sale, whilst the latter term should be applied to accounts dealing with raw material purchased and manufactured by the business into goods for sale.

Trading Account

It has already been stated (Chapter V) that the stock, purchases, sales, and other items which go to form the Trading Account appear, in the modern Ledger, in separate accounts. It has also been explained that it is necessary that such items should be brought together at the end of the period in a combined Trading Account.

This account contains, in summarised form, all the trader's transactions, throughout the trading period, in the commodities in which he deals. Upon the *debit* side of the account appear the opening Stock of goods on hand (*i.e.* the stock with which the trading period was started), the Purchases made during the period at cost price, *less* Returns Outwards when such have occurred.

Some examination candidates enter the Purchases *gross*, and *credit* the Returns outwards. This treatment does not affect the net result of the account, but it is opposed to modern practice, and fails to give the correct *net* figure of the purchases.

The same treatment, in the opposite direction, is sometimes employed with regard to Sales and Returns Inwards, and is equally out of touch with modern practice, since it overstates the Sales.

Upon the *credit* side of the trading Account appear the Sales *less* the Returns Inwards. Sometimes, where cash sales are numerous, the sales are divided as between "credit" and "cash" sales in an inner column, the total being carried into the outer column.

When the foregoing items have been incorporated in the Trading Account it remains, (*a*) first, to include in the account the ascertained value of the *Stock of goods on hand* at the end of the trading period, and (*b*) secondly, to ascertain the *Gross Profit* which has accrued.

The closing stock is credited, at the amount at which it has been valued, in the Trading Account, and is debited

to the Stock Account by means of a Journal entry (see pp. 85 and 135).

The student should now recognise the fact that some of the goods purchased during the period remain unsold in stock, and are carried forward to the following trading period, *i.e.* the current period yields them up (Cr.) to the following period (Dr.), and this transaction is recorded by crediting Trading Account and debiting Stock on Hand Account. The latter is, therefore, clearly an asset account at this date.

The form of the Trading Account compiled as indicated above is the simplest form in use, and is applicable to such businesses as sell goods in practically the same state in which they acquire them. The student must, however, understand that in practice he will find that the Trading Account will generally contain various items in addition to those enumerated above.

Answers to examination exercises reveal great diversity of treatment in compiling Trading, or Manufacturing, Accounts and it must be admitted that the commercial world exhibits equal lack of uniformity. It is difficult, and perhaps unwise, to attempt to dogmatise regarding the apportionment of the various charges and expenses as between *gross* profit (Trading Account) and *net* profit (Profit and Loss Account). In practice the character of the business, and the wishes of the proprietors, influence the methods adopted, but the student must base his work upon some reasonable and consistent principle, and it is suggested that—

(*a*) In a business dealing in goods purchased for resale, the debits to the Trading Account should consist of initial stock, *net* purchases, carriage inwards, and any wages and other expenses necessary in order to get the goods into condition for sale. The credits to the account should consist of the *net* sales and final stock.

(*b*) In a business which purchases raw material and manufactures its own goods for sale, the Manufacturing Account should be debited with initial stock and the work in progress brought forward from the previous period: Raw materials purchased (*net*), manufacturing wages and expenses, carriage inwards, the cost of factory power, heating, lighting, rent, rates, and similar factory

costs, *i.e.* all expenses of making up the goods into a saleable condition, to the point when they are ready to be offered for sale. The credit side of the account should consist of the *net* sales, apprentices' premiums (if any) and the stock and work in progress at the close of the period.

The above treatment will leave all selling, distributing and overhead charges to be dealt with in the Profit and Loss account, as will be explained later.

The student must realise that the all-important information afforded by a series of Trading Accounts is the ratio of gross profit between period and period for purposes of comparison, and if this information is to be of any value the *basis* upon which the Trading Account is prepared *must be consistent.* It will be obvious that, in a manufacturing business, if an efficient check upon the manufacturing process is to be maintained, the gross profit must be arrived at upon the same basis period with period.

Trading and Manufacturing Accounts are, in practice, constructed to serve various purposes and to suit varying needs, and if the advanced student desires further information on the construction and uses of these accounts he is referred to the author's *Higher Book-keeping and Accounts*, Chapter III.

An example of an efficient Manufacturing Account for a manufacturing business in illustration of these views is as follows—

When all the preliminary steps enumerated above have been effected, it will be found, in an ordinary case, that the total of the items appearing on the credit side of the Trading Account is in excess of the total of the various debits to the account; such difference represents the trader's **Gross Profit** for the period. The "Gross Profit" made on any particular article is the excess of the selling price over the purchase or cost price of the article dealt in, and the gross profit for a given period represents the amount by which the total of the proceeds of the sales for the period exceeds the total cost of purchasing and handling or producing the articles sold. Out of this gross profit the trader has to pay the various expenses incurred in selling and distributing his goods and carrying on his business, and the final balance

remaining after the deduction of such expenses represents his **Net Profit** for the period.

The gross Profit shown upon the Trading Account is consequently transferred to the trader's Profit and Loss Account immediately upon its ascertainment (for specimen Journal entry, see page 85), and, in this Account, it is subjected to the deduction of all the working expenses incurred by the trader in order that the actual net Profit derived from carrying on the business may be accurately arrived at.

JAMES SMITH.

MANUFACTURING ACCOUNT for the Year ended December 31st, 19—

19—		£	s.	d.	£	s.	d.	19		£	s.	d.	£	s.	d.
Jan. 1	To Stock (Initial).........							Dec. 31	By Sales ...... *Less* Returns						
" 1	" Work in Progress ...							" 31	" Stock (Final)......						
Dec. 31	" Purchases *Less* Returns							" 31	" Work in Progress ...						
" 31	" Manufacturing Wages														
" 31	" Carriage inwards ...														
	" Factory Power, Heating, etc.														
	" Factory Expenses...														
" 31	" Balance carried to Profit and Loss Account, being Gross Profit for the year														

It occasionally happens that the total credits (for Sales and closing Stock) in the Trading Account are less in amount than the debits (for Purchases and opening Stock, etc.). When this unfortunate result happens it indicates that the trader has made a **Gross Loss**,* or, in other words, that he has been disposing of his goods at a less price than they have cost him. Obviously such an occurrence will be rare, and, when met with, will probably be found to be due to some special circumstance, such as a sudden fall in the price of the articles dealt in at a

* "Gross Loss" is the term in common usage, although "Manufacturing" or "Trading Loss" would, perhaps, be more scientific.

time when the trader was overstocked with goods, or the unexpected alteration of the customs duty on the raw materials used by the trader in manufacturing his goods. In cases where a Gross Loss appears on the Trading Account it is transferred to the Profit and Loss Account, as in the case of a Gross Profit (the requisite entry being a credit to the Trading Account and a Debit to the Profit and Loss Account). The Gross Loss on trading is then augmented by the various debits for working expenses, and the other charges against the business, until a total figure representing the **Net Loss** for the period has been built up.

The Trading Account (simple form) arising out of the specimen Trial Balance given on page 104 appears on page 134, and will be found to exemplify the principles laid down above.

Having ascertained, by means of the Trading Account, the amount of the *Gross Profit* earned by the business, there remains, as the next step, the accurate assessment of the *Net Profit* which may be regarded by the trader as the actual income earned by the business during the period under review.

Lord Justice Lindley said, during the course of a much quoted case, "the word 'profit' is by no means free from ambiguity," nor have the many definitions of the word offered by various political economists afforded much practical assistance to the student.

The question "What is profit?" is a large one, and of great interest, but the many considerations involved are far too complex for the scope of this treatise. And, after all, the student, at this stage, will probably be wise to rest content with the broad commercial acceptance of the term as expressed by Mr. Justice Kekewich that "profit is the sum which is ascertained by the taking of a proper account of what has been made by trading," in other words, Profit may be broadly stated to be the amount by which the Capital of a business is increased during any given period by reason of the business transactions effected during that period. In order to ascertain this amount it is necessary to prepare a

Profit and Loss Account

The Profit and Loss Account of a trader is the statement wherein the various items of profit and revenue on

the one hand, and the losses and expenses incurred on the other hand, are *collected and offset*, the one class against the other—the simple rule to remember, in compiling such an account, being—*debit all the losses, credit all the gains*. The resulting balance of this account represents the **Net Profit** or the **Net Loss** for the period under review. In other words, the object of a Profit and Loss Account is to ascertain the income of a business and by offsetting the expenses of earning that income, to ascertain the net increase (profit) or decrease (loss) in the trader's " net worth " for the period.

We have seen that, in order to ascertain the *gross* profit of a trading period, the Trading Account must be debited with the cost of purchasing and handling, or producing, the goods sold. It follows, therefore, that the remaining debits in the Trial Balance (other than assets) must be charged to the Profit and Loss Account in order to arrive at the *net* profit for the period. These charges may be classified under three headings :—

(a) *Selling Expenses, e.g.*, Traveller's Salaries and Commission, Advertising, Warehouse Rent and the like.

(b) *Distribution Expenses, e.g.*, Carriage Outwards, Freight, Motor Lorry Expenses, Packer's Wages, and the like.

(c) *Administration Expenses, e.g.*, Salaries of Managers and Office staff, Office expenses, Office Rent, and the like.

According to modern practice, and as has been previously explained, separate Ledger accounts are opened at the beginning of a trading period for each type of " profit " or " expense," and it is to these accounts that the individual items of this nature occurring throughout the trading period have been posted. At the end of the period all these subsidiary " profit " or " expense " accounts are closed by means of transfers of the balances appearing on them to the combined Profit and Loss Account. Fresh subsidiary accounts under the same headings are then opened in order to record the " profit " or " expense " items occurring in the succeeding trading period. Provisions for outstanding expenses and other items are carried forward in the particular " profit " or " expense " accounts to which they relate at the end of a trading period, in order

to avoid the unnecessary trouble of opening numerous special Accounts for the various individual items; this procedure, however, does not affect the main principle that the balance of all "loss" and "profit" accounts must be transferred at the end of the trading period to the appropriate sides of the combined Profit and Loss Account.

The practice of carrying forward provisions for losses or gains appears to create confusion in the minds of some students, and furnishes a cause of frequent error in examination exercises. It would seem advisable, therefore, to deal here with the general methods employed.

The making of these provisions (whether of "loss" or "gain") arises from the necessity to ascertain the *actual trading result* of each financial period. At the close of every such period, there are, almost invariably, certain outstanding debts for expenses, and possibly also certain accrued income, or "gains" not yet received or brought into account. In order that the closing trading period and the succeeding trading period may be fairly dealt with, it is essential to adjust these "losses" and "gains" as between the two periods. Strictly speaking these adjustments should be made by Journal entry. For example, in the case of repairs, the cost of which is still to be paid for, the Journal entry read out in full would mean "the old trading period Dr. to the new trading period, for repairs executed during, and applicable to, the old trading period, the cost of which will be paid during the new trading period." (Here the old period has received the benefit of the service, and must therefore, bear the debit, and since the new period is to pay for the service, it is yielding this benefit and must be credited.) In order to economise labour and space, however, the more direct method of making these adjustments as described below has become general.

When it is desired to make a provision for a debt incurred but not yet paid, a *debit* entry, representing the expense incurred, is made in the appropriate Expense Account for the amount owing. This entry is made immediately below the last debit appearing in the account. A *credit* entry for the same sum is made simultaneously in the same Expense Account, at a short distance down the page, in order that it may form the first entry in the Expense Account for the ensuing

period. As the Ledger account has to be closed later on, it is necessary to make this Credit entry at a sufficient distance below the level of the existing entries to permit of the insertion of the necessary transfer entry to the Profit and Loss Account, and the totals of the account on either side, together with the customary tranverse lines across the money columns.

This principle is illustrated by the following example.

Example.—In the "Repairs Account" of a trader for the year, the following payments appear as debits, viz. March 31st, £32 14*s*. 6*d*., September 26th, £17 4*s*. 2*d*. On December 31st (the closing date of the trading period) the trader owes, to various contractors, small sums for repairs effected during the year but not yet paid for, amounting in all to £10 6*s*. 9*d*.

The most economical and effective way of incorporating in the Repairs Account the £10 6*s*. 9*d*. owing at the end of the period is by means of a "Provision" as under—

Dr. REPAIRS ACCOUNT Cr.

			£	*s*.	*d*.				£	*s*.	*d*.
19—						19—					
Mar. 31	To Cash	C.B.27	32	14	6	Dec. 31	By Transfer to Profit and Loss Account......	J. 164	60	5	5
Sep. 26	" "	C.B.29	17	1	2						
Dec. 31	" Provision for sundry amounts due but not yet paid, carried forward......	Contra	10	6	9						
		£	60	5	5			£	60	5	5
						19—					
						Jan. 1	By Provision brought forward	Contra	10	6	9

NOTE.—It will be obvious to the student that, in extracting the Trial Balance of the trader's books, it will be necessary to schedule Repairs Account in the *debit* column at £60 5*s*. 5*d*., and to enter the £10 6*s*. 9*d*. in the *credit* column as a Sundry Creditor, to be included, in due course, amongst the Sundry Creditors in the Balance Sheet.

The treatment illustrated above ensures that the trading period now closed bears the whole cost of the repairs incurred during the year.

It will be noted that in the above example the amount of £10 6*s*. 9*d*. owing at the end of the year is *debited* prior to ruling off the account (the item is consequently incorporated in the total of £60 5*s*. 5*d*. transferred to the Profit and Loss Account for the year), and the same

amount is *credited* below the ruling off of the account as a Provision (*i.e.* a "liability") to be paid in due course in the year following. The effect of this treatment is that when the amounts thus provided for are actually paid in the new year, the necessary credit entry in the Cash Book can be posted direct to the debit of the Repairs Account in the Ledger in the usual way, in company with all similar expenditure incurred in the new year.

Instead of bringing down the £10 6*s.* 9*d.* as a Provision, or credit balance, on the Repairs Account, it would, of course, have been possible to open a Sundry Creditors Account in the Ledger for the accommodation of all items of this type, but this would involve more care and labour than the practice explained above, and offers greater opportunity for error.

The example given above is that of a Provision to provide for a specific item of "Expense" incurred, but not yet paid, at the date of balancing, and it will be obvious to the student that many other circumstances may call for the creation of Provisions in a similar manner, *e.g.* Provisions for discounts allowable; and for losses arising from bad debts; and also, on the other hand, it may be necessary to create Provisions for profits earned but not yet received; as well as for expenses incurred but not yet paid, *e.g.* Provision for rents due to the trader but not yet received, or Provision made for profits upon foreign shipments, the statements relating to which have not yet been finally adjusted.

There is one kind of loss which is, unfortunately, common in the experience of most traders, viz. the loss arising out of the insolvency of debtors, and as the methods of providing for losses of this character differ in commercial practice, and appear to present difficulties to many students, it is worth while to consider them in some detail.

In a trading business, the book debts outstanding at any given date may be divided into three classes, viz.:

(1) Those which are expected to be duly paid (in other words, those which are "good");
(2) Those which are wholly irrecoverable (in other words, those which are "bad");
(3) Those of which there is possibility, but not certainty, that they will be paid either in full or in part, and which are classed as "doubtful."

Upon the realisation of "good" book debts the question of loss obviously does not arise.

Book debts which are known to be wholly irrecoverable (*i.e.* "bad") must be written off on or before the date of balancing the books, by means of an entry *crediting* the individual debtor's Personal Account with the amount of the balance owing by him, and *debiting* an account entitled "Bad Debts" with a like amount. The balance appearing upon **Bad Debts Account** at the close of the trading period must be debited as a "loss" in one total to the Profit and Loss Account. (This may be regarded as the yielding of a "dis-service" by the debtor.) In this way debts which are wholly bad become cancelled in the trader's ledger, and are duly charged against the profits of the undertaking.

There remain to be considered the "doubtful" book debts, some of which at any rate may be reasonably expected to be paid, at least in part, at some future date.

It should be obvious that when a debtor is debited with a sale, and Sales Account is credited, the trader has taken credit for the profit included in the sale price. If, however, the debtor fails to pay for the goods debited to him the profit included in the sale price is never received, and it must, therefore, be written back as soon as it is known or expected that the debtor will default. But in addition to the profit, there is also the loss of the amount which the goods themselves cost the trader, so that the whole of the debt must be written off. If the debt is known definitely to be irrecoverable, it is debited at once to Bad Debts Account, but if the recovery of the whole, or part, of the debt is still possible, then it is desirable to let the debtor's account remain open, but to offset it by a Provision for Bad and Doubtful Debts, as explained below.

There are two methods of assessing the estimated loss on doubtful debts. One practice is carefully to examine, in detail, all the debtors' accounts outstanding in the trader's Ledger with the assistance, if necessary, of some official conversant with the conditions of such accounts, and to decide *seriatim* which portions of individual debtors' balances will probably prove to be irrecoverable, and consequently need to be provided for out of current profits. For the total amount of the estimated loss thus arrived at the necessary provision

can then be made. In some cases the Sundry Debtors balances are taken out in four columns headed: "Good," "Doubtful," "Bad" and "Amount of Provision." The total of the latter column will give the amount of provision considered necessary.

For the total provision thus deemed needful a Journal entry must be passed, *debiting* the Profit and Loss Account and *crediting* the Provision for Bad and Doubtful Debts Account.

The trader learns from experience that a certain proportion of his debtors at any date can be expected ultimately to default, although naturally he does not usually know at a balancing date which individual debtors will default. The balances due from debtors who are certain to default will, of course, be treated as "Bad Debts" forthwith. All the trader can do, at the moment of balancing, with regard to these unknown possible defaulters, is to make an adequate provision for possible losses. An alternative method for creating the necessary provision, which is simpler and far more common, especially where the debtors' balances are numerous, is to set aside, in each trading period, as a Provision for Bad and Doubtful Debts, a fixed percentage of the total debtors' balances remaining after all the wholly "bad" debts have been written off to the "Bad Debts Account." The percentage to be adopted must be based upon the past experience of the particular business, and can, of course, be adjusted from time to time in case of need. In many trades, a percentage of 5 per cent. on the Sundry Debtors has proved to be an adequate provision.

In this case again the entry required in order to create the Provision is a *debit* to the Profit and Loss Account, coupled with a *credit* to the Provision for Bad and Doubtful Debts Account.

The "Provision" thus raised for Bad and Doubtful Debts (*i.e.* for debts which are not yet considered to be wholly irrecoverable) at any particular date of balancing should be carried forward in the books until the next date of balancing, when its sufficiency to cover the estimated loss on the debts outstanding at this *second* date of balancing will be reconsidered. At such second date the same process of writing off, direct to the Bad Debts Account, all wholly irrecoverable balances is again effected, and, either by examination of the remaining

debtors' balances then outstanding, or by providing a fixed percentage upon them the amount of the Provision for Bad and Doubtful Debts requisite at the second date of balancing is again arrived at. If the Provision required at the second date exceeds the Provision which was made at the first date of balancing (which Provision will already be standing in the books) a further provision for the *excess* must be made out of the current profits; conversely, if the Provision required at the later date be less than the Provision which is at that date already standing as a *credit* balance upon the books, the excess must be transferred to the credit of Profit and Loss Account.

The methods explained above are illustrated in the subjoined example, in which the provision for Bad and Doubtful Debts (as distinguished from Bad Debts wholly written off) is placed at 5 per cent. upon the total of the debtors' balances left upon the trader's books after writing off all actual bad debts. The provision for Bad and Doubtful Debts built up during the two previous years is greater than is needed for the current year, and a re-transfer to Profit and Loss Account consequently becomes necessary.

Example.—The following details as to Bad and Doubtful Debts are extracted from A. B.'s books.

It is required to show the entries involved in the following accounts, viz. (1) *The Bad Debts Account*, (2) *The Provision for Bad and Doubtful Debts Account*, (3) *The Profit and Loss Account.*

December 31, 1st year. Bad Debts to be written off C. D., £60; E. F., £95, both being wholly irrecoverable.

Five per cent. is to be provided for Bad and Doubtful Debts on £1,100, being the total amount owing by the debtors then outstanding.

December 31, 2nd year. Bad Debts to be written off G. H., £10; I. J., £75.

Five per cent. is to be provided for Bad and Doubtful Debts on £2,500, this being the total amount owing by the debtors then outstanding.

December 31, 3rd year. Bad Debts to be written off K. L., £60; M. N., £50.

Five per cent. is to be provided for Bad and Doubtful Debts on £1,500, this being the total amount owing by the debtors then outstanding.

If, after any debt has been written off as wholly "Bad," any portion of it is recovered (*e.g.* a dividend of 1*s.* in the £ under insolvency proceedings), the sum so recovered should be credited to the Bad Debts Account

BAD DEBTS ACCOUNT

Dr. | Cr.

Date	Particulars		£	s.	d.	Date	Particulars		£	s.	d.
1st year.						1st year.					
Dec. 31	To C.D. debt written off		60	0	0	Dec. 31	By Transfer to Profit and Loss Account		155	0	0
" 31	" E. F. debt written off ...		95	0	0						
		£	155	0	0			£	155	0	0
2nd year.						2nd year.					
Dec. 31	To G. H. debt written off......		10	0	0	Dec. 31	By Transfer to Profit and Loss Account		85	0	0
" 31	" I. J. debt written off		75	0	0						
		£	85	0	0			£	85	0	0
3rd year.						3rd year.					
Dec. 31	To K. L. debt written off......		60	0	0	Dec. 31	By Transfer to Profit and Loss Account		110	0	0
" 31	" M. N. debt written off......		50	0	0						
		£	110	0	0			£	110	0	0

PROVISION FOR BAD AND DOUBTFUL DEBTS ACCOUNT

Dr. | Cr.

Date	Particulars		£	s.	d.	Date	Particulars		£	s.	d.
3rd yr. Dec. 31	To Transfer to Profit and Loss Account, being amount in excess of provision of 5 per cent. needed for bad and doubtful debts provision on £1,500, debtors' balances outstanding at this date		50	0	0	1st yr. Dec. 31	By Transfer from Profit and Loss Account, being 5 per cent. on £1,100, debtor's balances at this date		55	0	0
" 31	" Balance carried down		75	0	0	2nd yr. Dec. 31	" Transfer from Profit and Loss Account to complete 5 per cent. on £2,500, debtors' balances outstanding at this date		70	0	0
		£	125	0	0			£	125	0	0
						3rd yr. Dec. 31	By Balance brought down, being provision of 5 per cent. on £1,500 debtors' balances outstanding at this date		75	0	0

PROFIT AND LOSS ACCOUNTS

(Showing such extracts only as relate to the Bad and Doubtful Debts entries appearing therein.

1st Year

Dr.		£	s.	d.		£	s.	d. Cr.
1st year.								
Dec. 31	To Bad Debts written off	155	0	0				
,, 31	,, Provision for Bad and Doubtful Debts at 5 per cent.	55	0	0				

2nd Year

Dr.		£	s.	d.		£	s.	d. Cr.
2nd year.								
Dec. 31	To Bad Debts written off	85	0	0				
,, 31	,, Provision for Bad and Doubtful Debts at 5 per cent.— £ s. d. Dec. 31, 19— ...... 125 0 0 *Less* amount provided Dec. 31, 19— 55 0 0	70	0	0				

3rd Year

Dr.		£	s.	d.		£	s.	d. Cr.
3rd year.								
Dec. 31	To Bad Debts written off	110	0	0	By Bad and Doubtful Debts— Amount provided Dec. 31, 19— .... £125 0s. 0d. *Less* amount provided Dec. 31, 19— .... £75 0s. 0d.	50	0	0

BALANCE SHEET, December 31st 19— (1st year)

Liabilities.				*Assets.*	£	s.	d.			
				By Sundry Debtors	1100	0	0			
				Less Provision for bad and Doubtful Debts at 5 per cent.	55	0	0	1045	0	0

of the year during which it is received. It will obviously be impossible to credit the dividend to the debtor from whose estate it comes, as the whole of the balance owing by him will have been written off as a bad debt and his account will have been already closed.

A Provision Account, created for Bad and Doubtful Debts should, when preparing a Balance Sheet, be *deducted* from the item Sundry Debtors; the net figure thus extended into the principal cash column of the Balance Sheet then represents the actual estimated cash value of the trader's book debts at the date of balancing according to the best information available. Some examination candidates show the Provision for Bad and Doubtful Debts as a *liability*, and take credit for the gross total of the book debts in their Balance Sheet as an asset; the incorrectness of this treatment will be obvious when it is remembered that the reason for creating the Provision is to eliminate the irrecoverable portions of various debtors' balances from such as are wholly good; the process of elimination should therefore be clearly exemplified in the Balance Sheet.

Examination Trial Balances frequently contain a credit balance under some such heading as "Provision for Bad Debts, December 31st 19— £350." A considerable number of candidates come to grief when confronted by an item of this kind. Yet the proper treatment should be simple. The above extract makes it clear that, at the close of the previous trading period, a provision for bad debts amounting to £350 was debited to Profit and Loss Account and credited to Provision for Bad Debts Account. This provision still remains as an open balance on the books, hence its appearance in the Trial Balance. When, therefore, the Candidate is told (in the "instructions" following the Trial Balance) to provide—say 5 per cent. on the sundry debtors, it should be clear that he already has a provision of £350 in hand, and only need provide for any *excess* provision that may be required. For example: assume that the Trial Balance contains a credit item "Provision for Bad Debts December 31st, 19—, £350," and a debit item "Sundry Debtors £8000," and that the candidate is told in the "instructions" to make a provision of 5 per cent., the entry in the Profit and Loss Account is as follows—

Provision for Bad debts:—

	£ s. d.	£ s. d.
December 31, 19— (*current year*) .	400 0 0	
Less *December* 31*st*, 19— (*previous year*)	350 0 0	
		50 0 0

and in the Balance Sheet as follows :—

Sundry Debtors	8000 0 0	
Less *Provision*	400 0 0	
		7600 0 0

In some businesses, where the custom of the trade induces debtors to pay promptly in order to obtain the benefit of attractive cash discounts, it is considered prudent to provide for the discounts which will have to be allowed to those customers who are debtors at the balancing date. Such provisions may be prudent, but it is doubtful if they are theoretically justifiable, since the "service" of prompt payment does not arise until the cash is actually paid, and it may so happen that circumstances occur to prevent prompt payment, with the result that the discount is never actually allowed. Where such provisions are made, however, their treatment is similar to that for Doubtful Debts, *i.e.* Profit and Loss Account is debited and a **Provision for Discounts Account** is credited with the estimated amount of discount, calculated as a percentage on the debtors. Care must always be taken to compute discount only on *good* debtors, since the actual allowance of discount cannot arise unless the debt is paid. The discount provision is, therefore, calculated on the balance of the debtors *after* deducting the Provision for Bad and Doubtful Debts.

Example.—The sundry debtors on 31st December, 19— amount to £8000. The "instructions" given to you are that provisions are to be created of 5 per cent. for Doubtful Debts, and 2½ per cent. for Discounts.

The Journal entries would be as follows—

19—		£ s. d.	£ s. d.
Dec. 31.	*Profit and Loss Account. Dr.*	590 0 0	
	To Provision for Doubtful Debts . . .		400 0 0
	Provision for Discounts .		190 0 0
	For estimated bad debts, 5 *per cent. on* £8000, *and discounts,* 2½ *per cent. on* £7600.		

In the Balance Sheet, the debtors would appear as follows—

	£ s. d.	£ s. d.	£ s. d.
Sundry Debtors . . .		8000 0 0	
Less *Provision for Doubtful Debts* . . .	400 0 0		
Provision for Discounts . . .	190 0 0	590 0 0	
			7410 0 0

In the Profit and Loss Account, any existing provision for Discounts would be adjusted in precisely the same way as that explained above for Provisions for Doubtful Debts.

Where discounts on debtors are anticipated in this way, a corresponding Provision should logically be made for discounts receivable when paying creditors. The entries for such a reserve are similar, but opposite, to those for a reserve on debtors.

When answering examination questions, students must bear in mind the fact that they must *not* make any such provision unless they are instructed by the terms of the question to do so.

The "Provisions" dealt with above, consisting of amounts taken credit for, or set aside for the purpose of accurately adjusting the profits as between one trading period and another, must not be confused by the student with those more or less permanent accumulations of Profits earned but not distributed, which are styled "*Reserve Funds*," or "*Reserve Accounts*."

A full discussion of the interesting questions relating to Reserves would be out of place in this treatise, and the advanced student desirous of pursuing the matter in detail is referred to *Higher Book-Keeping and Accounts* or *Accounting*. At this stage it will be sufficient to consider the following general remarks.

The difference between a *Reserve* and a *Provision* used in this sense is exceedingly important but not altogether easy to explain clearly and unfortunately the position is complicated by the fact that the *Companies Act* 1948 defines the word "provision" (as applicable to the balance sheet of a limited company) in a rather different sense (see Chapter XVI, p. 338). For present purposes the reader should consider a provision to mean a sum set aside to meet either :—

(*a*) A specific liability for expense such as the "repairs" dealt with on page 115, or

(*b*) A specific contingency, such as bad debts as already explained on pages 116 *et seq*.

A Reserve, on the other hand, is a sum set aside either to strengthen the financial position generally or to meet a possible liability in the more or less distant future. The liability in question in this case may be specific and definite or remote and vague: the point is that from a *legal* point of view there is no present necessity to set the sum aside at all—if there is such a necessity, then we are considering not a reserve but either a provision or an actual liability. Examples of reserves often met with in practice are General Reserve (raised merely for the purpose of withholding profits from distribution), and Reserve for Future Taxation. The treatment of this last item as a reserve is correct provided that the tax in question (however it may be calculated) is not *legally* chargeable on the profit of the current year but on the profit of a future year.

Provisions are obligatory. They are charges against profits, and are made in order to arrive at an accurate trading result, and their treatment in the books has already been explained. Reserves for general purposes, on the other hand, are voluntary and are an *appropriation* of profits. That is to say, profits are withheld from distribution, instead of being drawn out "up to the hilt," in order that a reserve may be accumulated to strengthen, or stabilise, the financial position of the undertaking. The proper Journal entry for creating such reserves is as follows—

	£	s.	d.	£	s.	d.
Profit and Loss Account Dr. .	2,000	0	0			
(*Appropriation Section*)						
To Reserve Account . .				2,000	0	0
For amount transferred.						

The General Reserve Account must be set out separately as a liability in the Balance Sheet, whilst the provisions are *deducted* from the relative asset, as we saw in the case of the Provision made for bad debts, which is deducted from the Sundry Debtors on the asset side of the Balance Sheet. The reason for this difference of treatment is that the General Reserve has no relation to any particular asset, but strengthens the whole financial position of the undertaking.

The terms "Reserve Fund" and "Reserve Account" are frequently employed in the commercial world as synonymous, and much academic discussion has not tended to clarify the position. From the student's

point of view, it is suggested that the caption "Reserve Fund" be employed when the reserve is separately invested in outside securities, and the term "Reserve Account" when the reserve is retained in the business and not separately invested. It must be understood, however, that no agreement as to this nomenclature exists in practice. The term "Surplus" is largely employed in America, and the term "Rest" by the Bank of England, to express a reserve resulting from undivided profits. The question whether General Reserves should be separately invested, outside the business, is not a book-keeping question, but one of financial expediency and need not be discussed in this place.

As the student will learn later, the majority of successful limited companies withhold profits in order to create Reserves; on the other hand, private traders and firms generally carry the whole of the available profits to the credit of their Capital Accounts and do not create separate Reserve Accounts.

Another type of adjustment which constantly needs careful consideration when a Profit and Loss Account is being prepared, is the provision necessary for the depreciation of any assets which have decreased in value owing to one cause or another. Depreciation is the term employed by accountants to indicate the gradual deterioration both in the value and the usefulness of those assets which, by reason of their nature and uses, steadily decline in value.

On reflection, the student will understand that many of the assets used in a business necessarily partake of this "wasting" nature, and only a few examples need be given. Plant and Machinery "depreciate" through use owing to natural wear and tear, or obsolescence. Leases, Patent Rights and other grants for a limited period of time obviously become less and less valuable as the date of their expiration approaches. When an asset endures for a limited period only, at the end of which time, or "life," it becomes either absolutely worthless, or practically so, the amount originally expended upon its acquisition must be "written off" to Profit and Loss Account in instalments spread over the period during which the asset is of use in carrying on the business. This charge to Profit and Loss Account is, in its nature, just as much a necessary business

expense as the moneys expended each week on postages or wages. The example of a lease for a term of years, purchased by the payment of a lump sum (or "premium") at the outset, offers perhaps as good an illustration from the student's point of view as can be taken. In such cases, in lieu of a quarterly or other periodical payment of "rent," a premium is paid down in a lump sum at the outset, and the trader obtains in exchange for this premium the right to occupy, for whatever term he has contracted, the premises covered by the lease. The premium, in this case, amounts practically to the present payment of a large sum for rent in advance, and this anticipation of future obligations must obviously, in the trader's accounts, be spread over the period to which it relates. The necessary adjustment is accomplished by debiting the original cost of the lease to an "asset" account (Leasehold Premises), and by "Depreciating" the amount at which such asset stands periodically, *i.e.* by transferring periodical portions of the Ledger debit to Profit and Loss Account.

A lease at the end of its term obviously has no residual value; its worth has disappeared absolutely; but, on the other hand, wasting assets of a more tangible nature, *e.g.* machinery, frequently have a residual value, if only as "scrap," even after their usefulness to the business has ceased to exist. In cases of this kind, the asset must be written down, over its period of usefulness, not necessarily to complete extinction, but to its residual value for sale when no longer useful as a business asset.

The gradual and inherent *wasting* of assets, properly termed "Depreciation," must be carefully distinguished from *fluctuation* in current market values, at any particular time, of assets similar in kind to those under consideration. "Depreciation" is a permanent diminution in value; "Fluctuation" is only temporary and may operate in both directions. It sometimes happens that, when a trader has purchased an asset for use, its market value, or the current cost of similar articles, falls seriously owing to external causes, *e.g.* land may fall in value owing to the district in which it is situated becoming unpopular, and machinery may possibly be obtainable at cheaper rates owing to the introduction of some new invention. These outside fluctuations are, of course, matters for which a trader *may* provide in his Profit and Loss Account should he so

desire; and he will usually be wise to do so if circumstances permit. Recognition of shrinkages in value of this nature may be prudent; it cannot, however, be claimed that they are provisions which *must* be made in the same sense that depreciation proper must be provided for, since they do not reduce the usefulness, or earning power, of the assets which are held for the work they do and not for sale. From the above remarks it will be seen that the object of providing for depreciation is to ensure that the cost of wasting assets is equitably distributed over the term of their working life.

The amount by which any asset is depreciated during the trading period must be made the subject of a *debit* entry either direct to Profit and Loss Account or, preferably, to the Depreciation Account for subsequent transfer to Profit and Loss Account. The corresponding *credit* entry is made in the account of the individual asset itself, thereby diminishing its book value by the amount of the "depreciation" sustained, and leaving to be carried forward a sum representing, as far as possible, the true present value of the asset. In other words, the asset is credited with the measure of the service yielded by it to the business for the period, and Depreciation Account (and ultimately Profit and Loss Account) is debited with the benefit thereof received by the business for the same period.

The student will realise that the assessment of depreciation must be based upon *estimate*. No hard-and-fast percentages of waste can be laid down as universally applicable; each case must be judged on its merits. To arrive at an estimate in any case it is necessary to take into account the original cost of the asset, its probable "working life," and its final "scrap" value, if any. Having arrived at an estimate of the total amount to be written off, a method of charging depreciation must be adopted. The methods in use are as follows :—

(1) the Straight Line, or Equal Instalment, Method.
(2) the Diminishing Balance Method.
(3) the Annuity Method.
(4) the Sinking Fund Method.
(5) the Insurance Policy Method.
(6) the Valuation Method.

Methods (3), (4) and (5) are not commonly employed, and can be dismissed briefly. Under *Method* (3) it is

assumed that the capital sunk in the purchase of the asset is earning interest. The annual depreciation charge is ascertained from Tables, and is calculated so as to write off the original cost of the asset, together with interest on the capital sunk, during the life of the asset. *Method* (4) also takes interest into account. A fixed amount is charged each year to revenue and an equivalent amount of cash is separately invested. At the close of the period, when the investment is realised, it will provide a sum equal to the original cost of the asset. Under method (5) an insurance policy is taken out in place of the sinking fund investment.

Where method (6) is employed, any depreciation which may have accrued is determined by an actual revaluation of the asset from time to time. This method (6) is suitable in the case of such assets as Loose Tools, Motors, Houses, etc., the current value of which is difficult to arrive at by the other methods of depreciation. Examination questions frequently indicate that the depreciation of certain assets is to be based upon a valuation, particulars of which are given.

Methods (1) and (2) are those in most common use, and the vast majority of business men employ either one or the other.

The Straight Line Method (1). Under this method the original cost of the asset (*less* final scrap value) is divided by the number of years of its estimated "working life," and an equal part is debited each year of the life to Profit and Loss Account. All repairs and renewals are also debited to the same account. Thus, if the original cost of a lathe is £1000, and its estimated "life" is ten years, and its final scrap value is £100, the amount to be charged as depreciation is: £1000 − 100 = £900, or £90 per annum. Additions to the machine must be treated in like manner. This method is simple and completely eliminates the asset at the end of its life. On the other hand, the method ignores interest, and the later years of the "life" bear heavier charges for repairs than the earlier years.

The Diminishing Balance Method (2). Under this method a fixed percentage (*e.g.*, 10 per cent.) is written off the diminishing balance of the asset ledger account in each year. It will be obvious that, under this method, the depreciation charge will grow less year by year as the balance of the asset account diminishes. On the

other hand, as the machine grows older the charge for repairs and renewals will increase. This is probably the most popular method with business men, but care must be taken to adopt a percentage sufficiently high to reduce the asset to its scrap value at the close of its life. The fixed percentage upon original cost, under the Straight Line Method, will eliminate an asset during its life, but the same percentage, under the Diminishing Balance Method, will leave a considerable balance on the books at the end of the life of the asset.

The difference between the last two methods may perhaps be usefully illustrated by the following example. Let us assume that certain machinery, the original cost of which was £1,000, is depreciated in the books of Firm A. by a fixed annual charge of 20 per cent. on the *original cost*, and, in the books of Firm B., by an annual charge of 20 per cent. of the *diminishing balance* standing from time to time to the debit of the Asset Account; the respective working of the accounts would be as follows :—

FIRM A.'S BOOKS.

MACHINERY ACCOUNT

(Depreciation charge, 20 per cent. on the original cost.)

		£	s.	d.			£	s.	d.
1st year. Jan. 1	To cost of Machinery ...	1000	0	0	1st year. Dec.31	By 1 year's depreciation ...	200	0	0
					„ 31	„ Balance carried forward	800	0	0
		£1000	0	0			£1000	0	0
2nd year. Jan. 1	To Balance brought down	800	0	0	2nd year. Dec.31	By 1 year's depreciation ...	200	0	0
					„ 31	„ Balance carried forward	600	0	0
		£800	0	0			£800	0	0
3rd year. Jan. 1	To Balance brought down	600	0	0	3rd year. Dec.31	By 1 year's depreciation ...	200	0	0
					„ 31	„ Balance carried forward	400	0	0
		£600	0	0			£600	0	0

		£	s.	d.			£	s.	d.
4th year. Jan. 1	To Balance brought down	400	0	0	4th year. Dec. 31	By 1 year's depreciation ...	200	0	0
					" 31	" Balance carried forward	200	0	0
		£400	0	0			£400	0	0

		£	s.	d.			£	s.	d.
5th year. Jan. 1	To Balance brought down	£200	0	0	5th year. Dec. 31	By 1 year's depreciation ...	£200	0	0

FIRM B.'s BOOKS.

MACHINERY ACCOUNT

(Depreciation charge, 20 per cent. on the diminishing balance.)

		£	s.	d.			£	s.	d.
1st year. Jan. 1	To cost of Machinery ...	1000	0	0	1st year. Dec. 31	By 1 year's depreciation ...	200	0	0
					" 31	" Balance carried forward	800	0	0
		£1000	0	0			£1000	0	0
2nd year. Jan. 1	To Balance brought down	800	0	0	2nd year. Dec. 31	By 1 year's depreciation	160	0	0
					" 31	" Balance carried forward	640	0	0
		£800	0	0			£800	0	0
3rd year. Jan. 1	To Balance brought down	640	0	0	3rd year. Dec. 31	By 1 year's depreciation	128	0	0
					" 31	" Balance carried forward	512	0	0
		£640	0	0			£640	0	0
4th year. Jan. 1	To Balance brought down	512	0	0	4th year. Dec. 31	By 1 year's depreciation	102	8	0
					" 31	" Balance carried forward	409	12	0
		£512	0	0			£512	0	0

		£	s.	d.			£	s.	d.
5th year.					5th year.				
Jan. 1	To Balance brought down	409	12	0	Dec. 31	By 1 year's depreciation	81	18	5
					,, 31	,, Balance carried forward	327	13	7
		£409	12	0			£409	12	0
6th year.									
Jan. 1	To Balance brought down	327	13	7					

It will be noticed that the fixed annual charge of 20 per cent. on the original cost (Firm A.'s books) completely extinguishes the Machinery Account at the end of five years, while writing off 20 per cent. of the *diminishing balance*, appearing on the Machinery Account from time to time (Firm B.'s books), does not extinguish the asset over the same period, there being a balance of £327 13*s.* 7*d.* remaining at the end of the fifth year.

When a trader has borrowed money for employment in his business, he will, if he is prudent, take steps to ensure that he will be able to repay the loan when the agreed date of maturity arrives. Perhaps the best way of doing this is to appropriate a certain sum from his profits each year. The measure of this appropriation should be an amount which, accumulated year by year, will furnish the sum necessary to repay the loan at maturity. The amount appropriated from profits for this purpose will be *credited* each year to a Sinking Fund Account and be *debited* to the appropriation section of the Profit and Loss Account. In order to ensure that the amount so set aside will be available in actual cash at the required date, the trader should invest an amount equal to the appropriation each year. By this process a fund, represented by investments, will be available when the loan becomes repayable. The investments will then be realised, and the loan be paid off. Thereupon, two items will disappear from the trader's Balance Sheet, *i.e.* the " Loan " (debit side) and " Investments " (credit side), but the " Sinking Fund " (on the debit side of the books) remains, and, as it has fulfilled its purpose, it can now be transferred to the general Reserve Account, or, in the case of a sole trader, be credited to his Capital

Account or, in the case of a firm, to the respective Capital Accounts of the partners in due proportion. When the annual instalments to be set aside are calculated, it is usual to take into account the interest which will be earned by the investment, and which will be credited to the Sinking Fund and re-invested. The annual instalments set aside will, for this reason, naturally be smaller than would be the case if the interest on the investments was credited to the Profit and Loss Account as ordinary revenue.

The advanced student who desires to make a detailed study of the important question of depreciation, and the views of the commercial and legal worlds regarding it, is referred to *Higher Book-Keeping and Accounts* and *Accounting*, where the subject is dealt with at length.

The Reserves, Depreciation and Provisions dealt with above are perhaps the matters most frequently requiring consideration when a Profit and Loss Account is being prepared, and, having endeavoured to describe them briefly, the general lines upon which the account itself is compiled may be proceeded with.

In the Trading Account all the Ledger balances relating to the trader's transactions in goods (*e.g.* Sales, Purchases, Returns, Stock, etc.) are, as has already been explained, combined in order to arrive at the "Gross Profit" or "Gross Loss." When ascertained, this "Gross Profit" or "Gross Loss" is transferred to the appropriate side of the Profit and Loss Account and forms the opening entry in the latter account.

All the balances remaining in the Trial Balance which represent either "profits" or "losses" are next sought for, and by means of Journal entries, similar to those outlined on page 85, are transferred from the respective Ledger accounts upon which they appear into the combined Profit and Loss Account. The resultant balance shown upon the Profit and Loss Account represents the *net result* of the trader's operations for the given period, and is either a Net Profit or a Net Loss according as the items upon the right-hand side of the account (viz. the "profits" and "gains") exceed those appearing upon the left-hand side of the account (*i.e.* the "losses" and "expenses"), or *vice versa*.

The figure of Net Profit or Net Loss thus arrived at is transferred, in the case of a sole trader, to the credit of his capital account if a profit, and to the debit of the

THOMAS ROBINSON.

TRADING ACCOUNT for the Year ended December 31st, 19—

Dr. Cr.

			£	s.	d.			£	s.	d.		£	s.	d.
19—						19—								
Jan. 1	To Stock on hand		1,294	15	0	Dec 31	By Sales	9846	12	4				
Dec 31	„ Purchases...		6,932	17	4		*Less* Returns Inwards	36	13	7		9,809	18	9
„ „	„ Balance being Gross Profit for the year carried to the Profit and Loss Account		2,009	3	7	„ „	„ Stock on hand					426	17	2
		£	10,236	15	11						£	10,236	15	11

THOMAS ROBINSON.

PROFIT AND LOSS ACCOUNT for the Year ended December 31st, 19

Dr. Cr.

			£	s.	d.				£	s.	d.
19—						19—					
Dec. 31	To Salaries ...	41	437	10	2	Dec. 31	By Gross Profit brought from the Trading Account ...	16	2009	3	7
„ „	„ General Expenses	38	325	14	6						
„ „	„ Rates and Taxes	14	180	4	9						
„ „	„ Interest	8	150	0	0						
„ „	„ Discounts allowed	10	104	3	9						
„ „	„ Depreciation of Fixtures and Fittings	91	12	10	0						
„ „	„ Balance, being Net Profit for the year transferred to J. Robinson's Capital Account	45	799	0	5						
		£	2009	3	7			£	2009	3	7

same account if a loss, and this transfer, appearing in due course in the Journal, forms the final entry for any given period of trading. An example of such a transfer will be found on page 85. The Trading Account and Profit and Loss Account arising out of the specimen Trial Balance appearing on page 104 are given above.

On referring to Thomas Robinson's Profit and Loss Account it will be noticed that the items of (1) Outstand-

ing expenses, £10, and (2) Depreciation of Fixtures and Fittings, £12 10*s*., have been brought into the account; these two items will, of course, affect the Ledger accounts to which they relate, and will cause corresponding adjustments in the Balance Sheet to be illustrated subsequently.

In view of what has been said at page 109 as to the necessity of preparing a Trading Account upon a consistent basis, period by period, in order to afford a true means of comparison, it may be remarked that the valuation of stock in hand, at the end of a trading period, ought always to be at the *actual cost price*; or, if the value of the stock has fallen permanently below the cost price, at the market price ruling at the time of valuation. This and other points are adequately discussed in Chapters III. and V. of *Higher Book-keeping and Accounts*.

EXERCISES.

9A.

1. Define the term "Trial Balance," and explain the method of its construction.

2. If the Debit and Credit sides of a Trial Balance agree in amount is this a conclusive proof that the whole of the book-keeping has been correctly accomplished? If not, to what extent is the construction of a Trial Balance valuable to the book-keeper?

3. What are (1) a "Trading Account," (2) a "Profit and Loss Account" respectively, and what is the difference between them?

4. How should "Returns Inwards" and "Returns Outwards" be dealt with in a Trading Account?

5. Explain the terms: (1) Gross Profit, (2) Gross Loss, (3) Net Profit, (4) Net Loss.

6. Explain how you would provide, in a set of books, for an amount of £10 arranged to be set aside out of profits to cover numerous small expenses incurred prior to the date of balancing, the statements for which have not yet come in.

7. What is meant by "Depreciation"? How would you provide for it in the books of a trader? Discuss alternative methods of providing for this charge.

8. Discuss briefly, and in an elementary way, the subject of "Reserves" and "Reserve Funds." Give the use of these two different terms as indicated for general adoption in this present treatise.

9. Define and explain the terms: "Profit," "Surplus," "Residual Value of a Wasting Asset," "Rest."

10. If a piece of machinery expected to last for five years, bought a year ago for use by A. B., and costing then £1,000, could now, owing to manufacturers of such articles being overstocked, be bought for £500, is it necessary or advisable to allow for such fall in values in the books of A. B.? Give your reasons. What depreciation allowances are necessary?

9B.

From the subjoined particulars prepare the Trading Account and the Profit and Loss Account of O. Hyslop for the year ended December 31, 19—.

	£	s.	d.
Stock of Goods on hand, January 1	3,096	10	0
Sales	35,932	15	1
Purchases	34,364	3	9
Returns Inwards	3,921	0	3
Returns Outwards	2,091	17	10
Wages	425	16	4
Salaries	394	12	1
Postages	38	17	9
Interest received on Deposit Account Balance at the Bank	100	4	1
Discounts Received	365	2	8
Discounts Allowed	39	4	2
Rent, Rates, and Taxes	274	9	8
General Expenses	214	0	11
Telephone Subscription	36	10	0
Stock of Goods on hand, December 31	6,245	17	11

9C.

From the following Trial Balance prepare Trading and Profit and Loss Accounts for the year ended December 31, 19—, incorporating therein the effect of the various provisions required to be made at the end of the year, as set out in the notes at the top of page 137.

R. Bridges.

Trial Balance as on December 31, 19—.

	£	s.	d.	£	s.	d.
Capital Account				6,933	1	3
Stock (January 1)	1,090	0	0			
Sales				22,164	1	9
Purchases	20,764	9	1			
General Expenses	463	5	1			
Returns Inwards	364	9	5			
Salaries and Wages	1,296	5	9			
Discount				26	9	5
Banker's Interest and Charges	25	16	4			
Bank Loan				8,000	0	0
Freehold Premises	7,650	0	0			
Leasehold Premises, ten years to run from January 1	3,250	0	0			
Income Tax	124	19	5			
Furniture, Fittings and Fixtures	694	12	9			
Debtors, A. King	465	9	8			
W. Jones	392	15	4			
Creditors, R. Stevens				1,001	4	11
J. Brown				341	9	8
Bills Receivable	1,000	0	0			
Cash at Bank	319	4	5			
Freight and Cartage on goods sold	564	19	9			
	£38,466	7	0	£38,466	7	0

9C. (*continued*).

Notes.—

	£	s.	d.
Stock on hand, December 31, was valued at .	4,091	16	11
Write off W. Jones's Debt as irrecoverable .	392	15	4
Write 10 per cent. Depreciation off Leasehold Premises	325	0	0
Write 10 per cent. Depreciation off Furniture, Fittings, and Fixtures	69	9	0

9D.

From the following list of balances extracted from the books of V. Roberts, prepare a Trial Balance as on December 31st, 19--.

V. Roberts.

Balances, December 31, 19—.

	£	s.	d.
Capital, V. Roberts	2,000	0	0
Purchases	12,465	12	9
Sales	23,149	12	3
Stock (Jan. 1)	7,264	0	9
Sundry Creditors	2,175	6	11
Bills Payable	3,200	0	0
Furniture and Fixtures	200	0	0
General Expenses	1,264	12	9
Wages and Salaries	729	13	6
Bank Loan (secured by mortgage of Premises)	2,000	0	0
Premises, Freehold	5,000	0	0
Sundry Debtors	2,194	13	2
Returns Inwards	32	14	3
Bank Interest and Charges	121	4	9
Mr. C. Roberts, Loan Account (repayable Jan. 1, four years hence)	2,000	0	0
Charitable Donations	5	0	0
Printing and Stationery	124	9	6
Discounts Allowed	122	17	3
Discounts Received	4	5	9
Cash at Bank	521	3	4
Cash in hand	3	2	11
Patents and Goodwill	2,000	0	0
Bills Receivable	2,480	0	0

Answers.—

9B. Gross Profit, £2,888 16*s.* 10*d.*; Net Profit, £1,930 12*s.* 8*d.*

9C. Gross Profit, £4,037 0*s.* 2*d.*; Net Profit, £800 18*s.* 8*d.*

9D. Totals of Trial Balance, £34,529 4*s.* 11*d.*

CHAPTER X

THE BALANCE SHEET

At the close of a financial period, the trader naturally desires to ascertain two things, viz. :—

(*a*) The result of his trading operations for the period.
(*b*) His financial position, as regards the outside world, at the close of the period.

As regards the former of these two desires (*a*); we have, in the preceding pages, followed, step by step, the procedure adopted by the trader in order to ascertain his trading results, viz., (1) the extraction and "agreement" of a Trial Balance from his books; (2) the extraction from that Trial Balance of the balances necessary to compile the Trading Account showing his *gross* profit; (3) a similar process for the combination of the remaining "gain" and "loss" balances in the Profit and Loss Account showing his *net* profit or loss; and (4) the transfer of the balance of the Profit and Loss Account to his Capital Account. When all this has been done, there still remain, undealt with, certain debit and credit items in the Trial Balance. The debit balances remaining represent **Assets**, and the credit items **Liabilities**—ranking Capital Account and Reserve Account as liabilities.

This brings us to the trader's final task viz.—(*b*), which is to ascertain his financial position at the close of the trading period. In order to accomplish this it is necessary to arrange the balances remaining in the Trial Balance in the form of a classified schedule, or statement, called a **Balance Sheet.** Strictly speaking the Balance Sheet is a second Trial Balance, in condensed form, prepared after the Profit and Loss Account has been closed, in which, however, according to commercial practice in this country, the sides upon which

the items appear are reversed; consequently the trader's possessions (assets) are marshalled in the Balance Sheet on the right-hand (or credit) side of the statement, while his liabilities (including his Capital Account) appear on the left-hand (or debit) side. In America and the Continent, and also, to some extent, in Scotland, the above order is reversed—the assets being marshalled on the left-hand side and the liabilities on the right. The student should clearly understand that the Balance Sheet is *not* a Ledger Account, it is merely a transcript of Ledger balances remaining open on the Ledger after the Profit and Loss Account has been closed. For this reason the contractions "Dr." and "Cr." (debit and credit) should never appear in a Balance Sheet.

The object of stating Ledger balances in the form of a Balance Sheet is to convey to the trader himself, or to any person whom it may concern, a clear and concise statement of the trader's financial position in a summarised form.

The term **Statement of Affairs** is also applied, under certain circumstances, to an account or statement purporting to disclose the financial position of a business concern or trader. In insolvency proceedings the phrase has a special technical meaning which we need not here discuss. When the term is used in accounting circles, however, it is generally meant to convey the fact that the statement has not been prepared from a set of books kept upon the "Double Entry" system, but from books in which "Single Entry" or other incomplete methods have been employed. The term "Balance Sheet," on the other hand, implies that the facts set out therein convey a concise statement of the financial position under review, as disclosed by a set of books kept upon the Double Entry system. The student should bear this distinction in mind, as it is important.

Returning now to the trader's Trial Balance. We have seen that the elimination of the "Trading" and "Profit and Loss" items has left us with certain balances which form the framework of the Balance Sheet. The greatest number of these balances will represent the personal accounts of the debtors and creditors. Although every remaining balance must, of course, be included in the Balance Sheet, it will be realised that it is both impracticable and unnecessary to

set out these balances *in detail.* In practice, therefore, all such balances are aggregated under the single headings "Sundry Debtors" and "Sundry Creditors." In the same manner, all items of a like nature are grouped together under an appropriate heading. For example if the trader has opened separate Ledger accounts for the investments he holds, the balances of these accounts will appear as one item under the heading "Investments," and so on. The strictest care, however, must be taken that the grouping is not misleading.

It will be obvious that in order that the Balance Sheet may be expressed in as concise, and yet in as lucid a form as possible, some system of grouping and classification is inevitable. At the same time, it must be borne in mind, that as is the case with many other useful accounting methods, grouping and classification may be carried to excess in a Balance Sheet. If the Balance Sheet be loosely drawn, items of a dissimilar nature may be grouped together under a heading which will fail to disclose their real nature, and the Balance Sheet, instead of being a lucid statement, may by this and other misuses, be distorted so as to show a better or a worse financial position than exists in reality. It is therefore necessary that the preparation of a Balance Sheet should be undertaken with care and deliberation, and that the interpretation which will probably be placed upon its component items by an outside observer should be borne in mind. A properly-prepared Balance Sheet should be capable of being understood by any ordinarily intelligent observer, even assuming him to be unacquainted with the details of the particular business in question, and it should convey its story to him in a clear and unmistakable manner.

The Balance Sheets on the following page have been prepared from the Trial Balance set forth on page 104, after the compilation of the Trading and Profit and Loss Accounts set forth respectively on page 134.

The student will note that, in these specimen Balance Sheets, the Assets (being the debit balances remaining upon the trader's Ledger) appear on the Credit or right-hand side, and the Liabilities on the left-hand or Debit side.

Controversy has arisen as to the correct side upon which to marshall the Assets and Liabilities in a Balance

THOMAS ROBINSON.

BALANCE SHEET as on December 31st, 19—

Liabilities.		£	s.	d.	Assets.		£	s.	d.
Thomas Robinson, Capital Account—					Freehold Premises taken at cost		2,700	0	0
As on January 1	2,054 16 1				Fixtures and Fittings—				
Add—					As on January 1	125 0 0			
Profit for the year	799 0 5				*Less*—				
		2,853	16	6	Depreciation at 10 per cent. p.a.	12 10 0			
Loan Account—							112	10	0
R. Buckley		3,000	0	0	Stock valued at cost price		426	17	2
Sundry Creditors—					Sundry Debtors		715	3	1
Browning Mfg. Co.	1,024 13 9				Bills Receivable		3,760	0	0
Expenses outstanding	10 0 0				Cash—				
		1,034	13	9	At the Bank	895 6 11			
Bills Payable		1,735	10	0	In hand	14 3 1			
							909	10	0
		£8,624	0	3			£8,624	0	3

THOMAS ROBINSON.

BALANCE SHEET as on December 31st, 19—

Liabilities.		£	s.	d.	Assets.		£	s.	d.
Sundry Creditors	1,024 13 9				Cash—				
Expenses outstanding	10 0 0				At the Bank	895 6 11			
		1,034	13	9	In hand	14 3 1			
Bills Payable		1,735	10	0			909	10	0
Loan Account—					Bills Receivable		3,760	0	0
R. Buckley		3,000	0	0	Sundry Debtors—				
Thomas Robinson, Capital Account—					R. Wilson & Co.		715	3	1
As on January 1	2,054 16 1				Stock valued at cost price		426	17	2
Add—					Fixtures and Fittings—				
Profit for the year	799 0 5				As on January 1	125 0 0			
					Less—				
		2,853	16	6	Depreciation at 10 per cent. p.a.	12 10 0			
							112	10	0
					Freehold Premises at cost		2,700	0	0
		£8,624	0	3			£8,624	0	3

Sheet. The discussion provoked is interesting, but at this stage of the student's progress it will be sufficient for him to know that, in this country, the practice of placing the Liabilities upon the left-hand side and the Assets upon the right-hand is now practically universal.

It will be noticed that the figures composing the above Balance Sheet have been drawn up or "marshalled" in alternative forms. The two methods of **Marshalling the Assets and Liabilities** set out therein are those in common use in modern practice. The first example shows the Assets set out in the order of their permanence and unrealisability, and, as far as possible, the relative Liabilities have been ranged against them. The second example shows the Assets marshalled in the order in which they could be most easily realised, and the Liabilities have been ranged in the order in which their payment can be demanded.

As will be explained later on, the first example given above exhibits the order in which Assets are marshalled in the great majority of the published accounts of limited companies. The second method has, however, much to commend it. No dogmatic rule can be laid down upon a matter of this sort, where expert opinions legitimately differ, and the student will be safe in adopting either method, provided he carries it out reasonably and consistently.

The need for the careful marshalling of Assets and Liabilities is not mere pedantry as some students appear to imagine. In a Balance Sheet those responsible for the business are telling the story of their stewardship, and, for this reason, the desire to exhibit the solid and permanent nature of the undertaking usually leads them to prefer method number one as described above. The Liabilities, if properly marshalled, show what the undertaking is liable to account for to the outside public and the proprietors, and the Assets show how these commitments can be met.

The Assets set forth in the second Balance Sheet, as already explained, have been arranged in the order of their realisability, *i.e.* according to the degree of facility with which they could, under ordinary circumstances, be converted into cash. The most liquid of the Assets shown, viz. Cash, has been placed at the head of the statement, as, being cash, it is already "realised," and

the other Assets which follow may be taken, in normal circumstances, to be realisable in the order in which they are shown; *e.g.* the Bills Receivable, maturing at fixed dates not far ahead, are taken to be more easily encashed by being discounted on or before maturity, than the amounts owing by the ordinary trade debtors; again book debts may be taken to be more readily realisable than the stock of goods on hand, and the latter in its turn ranks before the capital which has been sunk in acquiring the fixtures and fittings and freehold premises.

When this method of marshalling the Assets is made use of, it should be complemented on the debit side of the statement by arranging the Liabilities in the order in which the various creditors could enforce their claims. Under this method the Capital Account would, of course, appear last.

The principle of stating Assets in the order of their easy realisability is one which is adopted by Banks and kindred financial undertakings. The chief object in these cases is to satisfy the public as to the *liquid* nature of the Assets, and the complete competence of the Banks to meet all claims upon them. As explained above, it is a matter of opinion whether it is wiser to place the most "realisable" or the most "unrealisable" asset at the head of the statement. Whichever method the student adopts he must take care to apply it consistently and intelligently.

It may be stated also that, as a general rule, the more difficult an asset is to realise, the greater will be the loss on its realisation if hurriedly effected. The loss entailed by rapidly calling in a large number of trade debts will probably be less, on a percentage basis, than the loss which would ensue if land and buildings or plant and machinery were put up to auction and sold without reserve; further, items such as "Goodwill" and "Fixtures," though originally they may have been costly to acquire, may be absolutely useless for the purpose of raising immediate funds. It is upon the wise preservation of a reasonable and adequate proportion of a trader's resources in a liquid form (*e.g.* Cash, Book Debts, and Bills Receivable), having regard to the amount of his trade creditors and other immediate indebtedness, that the ability of the trader to honour his obligations, and therefore to maintain his commercial credit, must

always depend. It would, perhaps, be difficult to overestimate the benefits which have accrued to traders from the advantages afforded by the system of commercial credit operating in this country. The student cannot too clearly comprehend, however, that every credit operation implies a possible cash transaction. The trader therefore, if he be prudent, whilst making every legitimate use of the advantages afforded by his commercial credit, will make every wise provision for the cash demands involved by his credit operations.

It is, of course, impossible to give any list or classification of Assets which can lay claim to be exhaustive, but the following list includes some of the most frequently occurring types ranged in the order of their realisability, and may prove helpful to the student—

Class I.	Cash in hand. Cash at the Bank. Consols and other "gilt-edged" securities readily dealt in on the Stock Exchange and capable of immediate encashment.
Class II.	Bank Deposits for short terms. Securities dealt in on the Stock Exchange for the fortnightly settlements. Remittances in transit. Loans on short call (secured).
Class III.	Bills Receivable. Trade Book Debts. Outstanding interest. Business loans on security. Loans on mortgage.
Class IV.	Stock on hand. Goods sent out on consignment to other persons for sale. Work in progress.
Class V.	Plant and Machinery. Fixtures, Fittings and Furniture.
Class VI.	Land and buildings, (*a*) freehold and (*b*) leasehold, (*c*) in town or (*d*) country.
Class VII.	Goodwill, Patent Rights, assets or capital expenditure of exceptional nature.
Class VIII.	Obsolete plant and machinery, land in undeveloped districts, "development" and other expenditure of a like nature.

Class VIII. (*contd.*) "Preliminary Expenses." (Balance of this account not yet written off.)

In considering a Balance Sheet, the student must be warned against falling into the somewhat common error of imagining that the items placed on the Assets side of the statement represent of necessity tangible property capable of being readily converted into the exact sums of money placed against each asset. Sufficient has already been said above to indicate that different types of property possess widely differing degrees of realisability, both as regards the time required to convert them into money, and as regards the actual amount likely to be produced by their forced sale. Again, many of the Assets acquired by a trader are frequently suitable for his particular type of business only (*e.g.* plant and machinery of special kinds). Such Assets necessarily fall considerably in market value directly they are ranked, for selling purposes, as "second-hand"; the fact that their money value to an immediate seller has depreciated in this way is a matter quite apart from their cost, or their present value, to the owner for *use in a "going concern."* Indeed, the "market value" of his Fixed Assets is not of great importance to the trader; he holds them in order to earn profits by their use and not for re-sale. The student must clearly grasp the fact that the differing values of Assets, when viewed from such widely divergent standpoints, is one which it is neither necessary nor possible to take completely into account when preparing the Balance Sheet of the actual user. Provided always that, by means of adequate provision for depreciation, the Fixed Assets are gradually reduced to their residual or "scrap" value at the end of their period of usefulness, market fluctuations may be ignored in the books of an owner for use, and this fact forms one of the instances which exemplify the differences which must always exist between "book" and "market" values.

It would be quixotic, too, in the case of Assets such as "Goodwill," to imagine that, in the majority of cases, they are immediately saleable at a price approximate to the figure at which they stand in the owner's books; the monetary sum set out against the Asset in the Balance Sheet in these cases represents the "cost" to the owner (*less* any amounts written off), or the amount of

capital he has expended in this direction, and bears no necessary reference to the amount which the asset would produce if sold.

Briefly put, the " fixed " Assets of a going concern may safely be valued for Balance Sheet purposes at cost *less* reasonable provision for waste and depreciation. On the other hand, " current " Assets, such as Stock, Book Debts, etc., should be valued as nearly as possible at their actual present value, which, in some cases (*e.g.* Stock), may be their " market " value. By " market " value is usually meant the current price at which they could be purchased on the date of the Balance Sheet, where this is less than cost. The reason for this different basis of valuation is due to the fact that the " floating " Assets are held for sale, or conversion into cash.

All that can be wisely claimed for a properly-prepared Balance Sheet is that it discloses a conservative view of the trader's financial position, after making such provisions as are necessary in order to reduce his Assets to their true present value to the trader as the proprietor of a " *going concern.*"

No trader's Balance Sheet does or can profess to represent the financial position which would result if the Assets set out therein were immediately placed upon the market.

In the opinion of the author the student will be wise to accustom himself to refer to the two sides of the Balance Sheet as the " Debit " and " Credit " sides, rather than as the " Liabilities " and " Assets " sides of the statement. A little thought and inquiry will soon demonstrate the fact that the latter and more popular nomenclature is often incorrect. As its name implies, a Balance Sheet is a condensed statement of the debit and credit balances remaining upon the Ledger after the elimination of all the " Profit and Loss " items. Such a statement, or schedule, may, and in fact does, of necessity often include items which cannot properly be classified as Liabilities or Assets. For example, the Reserve Account, and the undivided balance of the Profit and Loss Account, will be found on the debit side of the statement; whilst on the credit side may be found the deficiency or loss (if any) for the period, or any expenditure which is unrepresented by any asset, and which is held in suspense, in order that it may be written off over a future period

(*e.g.* Preliminary Expenses).* It will be self-evident to the student that in such cases, which are not uncommon, the designation "Liabilities" and "Assets" is inappropriate.

An error, not infrequently met with in examination work, is the use of the heading:—"Balance Sheet for the year ending December 31st, 19—." A Balance Sheet exhibits the financial position *as on a definite date*, and does not cover a period, as is the case with a Profit and Loss Account. The correct heading is "Balance Sheet [as on] December 31st, 19—."

As has already been indicated, a statement, such as those prepared when a bankruptcy is impending, wherein the Assets are stated as nearly as possible at their "break-up" values, is termed a "Statement of Affairs," and differs widely from a Balance Sheet both in its object and in the manner of its preparation. The object of such a statement is to arrive at the amount of cash which will be available for distribution amongst the creditors if the Assets are sold at their estimated "break-up" values. The student has already been warned that he must not confound statements of this character with a Balance Sheet prepared from a set of books kept upon the Double Entry system.

In the preparation of a Balance Sheet it is always desirable that all Assets, the market value of which is liable to fluctuation, or which are realisable only with difficulty, or which have been acquired *for use*, as distinguished from those acquired for subsequent conversion into money, shall be stated separately and clearly; care should also be taken that the basis upon which the Balance Sheet value of such Assets is arrived at is plainly indicated. In the specimen Balance Sheet given on page 141, it will be noted that the "Stock on Hand" and "Freehold Premises" are stated as having been "valued at cost price," and that the amount of the depreciation written off the "Fixtures and Fittings" is clearly shown; this wholesome practice should be extended to all Assets except in those cases in which the monetary value is practically certain, in order that the Balance Sheet may be freed, as far as possible, from any ambiguity as to

* An investigation of the Balance Sheets of unsuccessful companies will furnish the student with illustrations of "Assets" of this type.

the bases of the valuations placed upon the Assets scheduled therein.

The valuation of Assets prior to the preparation of a Balance Sheet frequently presents considerable practical difficulties; it is impossible to discuss so large a subject at adequate length in this chapter, but two general rules may be laid down for the guidance of the student, viz.—

1. That Assets held for *the purpose of being subsequently converted into money* (*e.g.* Debtors, Bills Receivable and Stock on hand) should not be stated in the Balance Sheet at any amount which is in excess of their *probable realisable value, or current cost of replacement* (*if lower*), and that, if the latter is below their book value, adequate depreciation must be provided. On the other hand, it may be stated, as a general rule, that it is unwise to write up (or "appreciate") Assets of this description in cases where their market value has temporarily risen above their book value, for that would be anticipating a profit which may never be realised.

   Assets of this type were formerly known as **Floating Assets,** or less commonly as **Circulating Assets.** The term now universally employed is **Current Assets.** So far as they are available, these Assets (less the "outside" liabilities) form the **Working Capital** of a business.

   Having mastered the meaning of the Capital Account of the proprietor of a business and the principles upon which it is constructed, the student is sometimes perplexed when he encounters the term Working Capital in connection with the same business. The two things are quite distinct. As we have seen, the trader's Capital Account represents his *net worth* so far as the business is concerned. Working Capital, on the other hand, represents the amount by which the readily realisable "current" Assets exceed the current outside Liabilities. In other words, the capital immediately available to carry on, or "work," the business with. For example, consider the following Balance Sheet—

BALANCE SHEET

Capital Account	£9,878	Freehold Factory	£3,400
Sundry Creditors	2,500	Machinery and Plant	2,680
Bills Payable	1,680	Sundry Debtors	4,221
		Stock	2,895
		Cash	862
	£14,058		£14,058

Here it will be seen that (1) the current Assets (Sundry Debtors, Stock and Cash) amount to £7,978, (2) the outside Liabilities (Sundry Creditors and Bills Payable) amount to £4,180; and that (3) the difference between these two amounts is £3,798 which represents the "Working Capital" available to carry on the business. The permanent "fixed" Assets are excluded from the calculation, because they are not quickly available for current needs.

2. That in the case of Assets held *solely for use* (*e.g.* Plant and Machinery, Goodwill, Leases, Patent Rights, etc.), *fluctuations in current market values may be ignored*, and that, provided adequate depreciation is written off the asset in order to reduce it to its residual value at the end of its useful "life," it may be included in the Balance Sheet at its original cost less this necessary depreciation. The basis of valuation should invariably be stated; indeed, under the *Companies Acts of* 1929 and 1948, the basis of valuation of fixed Assets *must* be stated in the Balance Sheets of Limited Companies.

The generic name of Assets of the above class is **Fixed Assets.** The term is not altogether a happy one, as Fixed Assets of some classes are subject to wear and tear. When used in conjunction with Assets, however, the adjective is meant to imply that the Assets so designated are held for the purpose of carrying on the business and earning income, and not for re-sale. (In cases where Fixed Assets decrease in value owing to wear and tear, or other cause, they are also referred to as **Wasting Assets.**)

The necessity for providing for the deterioration of these Wasting Assets will not be challenged by

any sound business man, but it cannot be claimed that this necessity will always be enforced by the Courts in the case of Limited Companies. A series of interesting cases dealing with this question appears in *Accounting*, and should be studied by the advanced student.

EXERCISES.

10A.

1. Explain the nature of a Balance Sheet. In what respect does it (*a*) resemble, and (*b*) differ from, a Trial Balance?

2. Differentiate between a "Balance Sheet" and a "Statement of Affairs."

3 Discuss the order in which the Assets should appear in a Balance Sheet, giving reasons for the method you prefer.

4 Range, in the order of their realisability, the following assets: Cash, Freehold Land, Book Debts, Consols, Plant, Balance on Deposit Account with Bankers, Patent Rights, Stock on hand, Work in Progress, Preliminary Expenses, Good-will.

5. Is the following statement correct? If not, discuss the questions involved: "No asset should be included in a Balance Sheet which is not capable of conversion into money, and no asset should be included at any value above that which it would fetch if immediately sold."

6. Explain the nature of, and the difference between, "Current" and "Fixed" Assets.

7. What is "Working Capital"?

8. Upon what basis should "wasting assets" be valued for inclusion in a Balance Sheet? Illustrate your answer by dealing with the case of a Printing Machine costing £50 with a life of five years, being worth at the end of that time £5 as scrap-iron. The charges for repairs for the five years are as under: First year, £1; second year, £3; third year, £5; fourth year, £5; fifth year, £6 10*s*.

10B.

From the following particulars prepare the Balance Sheet of Charles Wilkinson, as on December 31, 19—, showing his capital at that date, and ranging the items on either side in the order of their realisability, or as they become payable.

	£	*s.*	*d.*
Stock of Goods on hand, December 31	11,090	16	5
Sundry Debtors	1,078	13	0
Freehold Premises (valued at cost)	3,000	0	0
Bills Payable	5,075	10	0
Furniture and Fixtures, at cost, less depreciation at 10 per cent. per annum	615	17	9
Sundry Creditors on Open Accounts	1,204	7	6
Creditor for Loan for working capital, H. Henry	13,000	0	0
Bank Overdraft, National Provincial Bank, Ltd., Cardiff	18	17	6
Cash in Hand	32	17	9

	£	s.	d.
Goodwill (at cost)	2,000	0	0
Stock of Stationery in Hand	15	4	9
Bills Receivable in Hand	1,765	0	0
Balance with Lloyds Bank, Ltd., London—			
On Current Account	189	15	6
On Deposit Account (at 7 days)	1,000	0	0
Sundry Creditors for expenses due but not paid	37	16	5
Consols, £1,000 at 83	830	0	0

10c.

From the following Trial Balance prepare the Trading Account and the Profit and Loss Accounts for the year ended December 31, 19—, and a Balance Sheet as on that day, incorporating therein the adjustments set forth in the footnote.

O. Jones.

Trial Balance as on December 31, 19—

	£	s.	d.	£	s.	d.
Bills Payable				1,500	0	0
Carriage on Purchases	462	15	1			
Salaries	255	0	0			
Travelling Expenses	14	6	2			
Rent, Rates and Taxes	38	9	5			
Advertising	463	16	2			
Stock (January 1)	2,095	10	0			
Purchases	8,962	5	0			
Returns Inwards	364	9	8			
Returns Outwards				862	15	9
Leasehold Land and Buildings	1,000	0	0			
Furniture and Fixtures	240	0	0			
Patent Rights	310	0	0			
Sales				11,046	3	9
Bills Receivable	750	0	0			
Sundry Trade Creditors on Open Accounts				6,049	12	4
Sundry Trade Debtors on Open Accounts	7,392	16	5			
Machinery and Plant	105	10	0			
Carriage and Packing Expenses (Sales)	34	6	0			
Electric Light	12	4	10			
Telephone Subscriptions	24	5	0			
Discounts received				62	9	5
Discounts allowed	179	4	6			
Westminster Bank, Ltd., Current Account	251	4	4			
Westminster Bank, Ltd., Deposit Account	500	0	0			
Petty Cash, Balance in Hand	10	0	0			
Office Cash, Balance in Hand	38	9	4			
Fire Insurance Premiums	16	9	4			
Capital Account (O. Jones)				4,000	0	0
	£23,521	1	3	£23,521	1	3

10c (*continued*).

	£	s.	d.
Notes.—			
(*a*) The value of the Stock on hand, December 31, was	2,879	16	10
(*b*) Provide 5 per cent. on the Sundry Debtors for Bad and Doubtful Debts.			
(*c*) Write off the Patent Rights	50	0	0
(*d*) Write off from the "Leasehold Premises Account" one year's depreciation on £1,000 at 5 per cent. p.a. . . .			
(*e*) Carry forward the unexpired portion of "Fire Insurance Premiums (£16 9*s*. 4*d*.)" paid in advance, viz. . .	5	10	6
(*f*) Write 10 per cent. depreciation off the Machinery and Plant Account.			

10D.

The Steel Co., Ltd., began business on January 1st, 19—, with a Capital of £40,000. in 8,000 shares of £5 each, £1 to be paid on allotment, £1 on March 1st, and £1 on June 1st. Freehold Land value £2,500, was bought and Buildings erected at a cost of £11,250. There were also purchased Plant, £3,750; and Office Furniture, £175; and Preliminary Expenses amounted to £375. The works were finished on June 30th and all liabilities thereon were paid at that date. The following were outstanding as arrears, viz.—On Allotment, £175; on first call, £280; and on second call, £345. Cash in Bank amounted to £5,150. Make the necessary entries for the above, and prepare a Balance Sheet as at June 30th. On December 31st Stock amounted to £7,800. From the following Trial Balance prepare Trading and Profit and Loss Accounts and Balance Sheet, after depreciating Freehold Buildings $1\frac{1}{2}$ per cent. per annum, Plant 10 per cent. per annum, Furniture $7\frac{1}{2}$ per cent. per annum, and Preliminary Expenses one-sixth.

	£	s.	d.	£	s.	d
Freehold Land	2,500	0	0			
Freehold Buildings	11,250	0	0			
Plant	3,750	0	0			
Office Furniture	175	0	0			
Wages	4,000	0	0			
Preliminary Expenses . . .	375	0	0			
Calls in arrear, viz.—Allotment .	130	0	0			
First call .	100	0	0			
Second call	120	0	0			
Purchases.	12,375	0	0			
Salaries	2,200	0	0			
Directors' and Auditors' Fees .	475	0	0			
Stationery	120	0	0			
Office Expenses	180	0	0			
Rates, etc.	60	0	0			
Sundry Debtors	2,940	0	0			
Bank	3,125	0	0			
Capital				24,000	0	0
Sales				17,500	0	0
Creditors				2,375	0	0
	£43,875	0	0	£43,875	0	0

Answers.—

10B. Capital, £2,281 13*s*. 9*d*.; Balance Sheet Totals, £21,618 5*s*. 2*d*.

10C. Gross Profit, £2,903 16*s*. 7*d*.; Net Profit, £1,453 11*s*. 3*d*.; Balance Sheet Totals, £13,003 3*s*. 7*d*.

10D. Balance Sheet Totals—

June 30th, £23,200 0*s*. 0*d*.
Dec. 31st, £31,574 1*s*. 3*d*.

Gross Profit, Dec. 31st, £8,925 0*s*. 0*d*.
Net Profit, Dec. 31st, £5,549 1*s*. 3*d*.

CHAPTER XI

A MERCHANT'S ACCOUNTS

In order to illustrate the practical working of the books already described in the preceding chapters, and to explain further their combined use as a complete system, the subjoined example has been worked out in detail in the exact manner in which the items would appear in an actual set of books.

The transactions upon which the illustration is based are assumed to be those of J. Harris, a merchant dealing in two classes of goods, viz. Coffee and Tea. In order that the transactions in the two types of goods dealt in may be kept apart from each other, and the gross profit on either class of merchandise separately ascertained in the Trading Account, the principle of analysis columns has been made use of in the "Sales," "Purchase" and "Returns" Books, as well as in the Stock and Trading Accounts in the Ledger. The dealings in merchandise, and certain of the other transactions given in the example, are, of course, less numerous than they would be in an ordinary mercantile business, but they have been curtailed in order to avoid unnecessary repetition of entries of a precisely similar character, *e.g.* the illustration of the way to record a single sale or return is deemed to be sufficient to indicate how all sales and returns, of a similar character, should be passed through the books.

The books illustrated are as under, and the initial letters, appended to the names of the various books of original entry, are used, in lieu of folios, in the Ledger in order to indicate the particular book in which the original entry is to be found.

CASH BOOKS	**Cash Book (with columns for "Bank," "Office Cash," and "Discount")**	**C.**
	Petty Cash Book	**P. C.**

JOURNALS	Journal (Proper)	J.
	Purchases Book (analysed form)	P.
	Sales Book (analysed form)	S.
	Returns Inwards Book (analysed form)	R. I.
	Returns Outwards Book (analysed form)	R. O.
	Bills Payable Book	B. P.
	Bills Receivable Book	B. R.

LEDGER — Ledger containing—

(*a*) Analysed accounts for Stock, Sales, Purchases, Returns Inwards, Returns Outwards, and Trading Account, to correspond with the classification appearing in the relative books of original entry.

(*b*) Other Ledger accounts in the ordinary simple form.

A **Trial Balance** is appended, and also a **Balance Sheet** showing the financial position at the end of the Trading period.

The Example is as under—

J. Harris commenced business on March 1, 19—, with the following Assets and Liabilities—

	£	s.	d
Assets.			
Cash at Lloyds Bank, Ltd.	2,049	16	6
Stock of Goods on hand—			
Coffee: 1,626 bags valued at 50s. each	4,065	0	0
Tea: 120 chests valued at 40s. each	240	0	0
Lease of Warehouse and Land appertaining thereto having 15 years to run, valued at	1,500	0	0
Debtor: Francis & Co.	65	10	0
Furniture and Fixtures, valued at	120	0	0
Liabilities.			
Wynaad Coffee Co., Ltd.	2,050	16	5

His transactions for the month of March were as follows—

		£	s.	d.
Mar. 1	Drew from the Bank—			
	1. For Office Cash	50	0	0
	2. For Petty Cash	20	0	0
„ 3	Bought from the Produce Importing Co., Ltd., on credit—			
	200 bags of Wynaad Coffee at 50s. per bag	500	0	0
	100 chests of Silhana Tea at 46s. per chest	230	0	0
„ 6	Sold to the Northern Stores, Ltd., on credit—			
	500 bags of coffee, medium, at 56s. per bag, less 2 per cent. Trade Discount	1,372	0	0
	200 chests of tea at 50s. per chest, net	500	0	0
„ 9	Paid from Petty Cash—			
	For Envelopes and Letter-paper	1	4	9
	For Brass Door-plates (debit Furniture and Fixtures Account)	3	8	6
	For stamps	0	15	0
„ 10	Accepted the Produce Importing Co.'s draft due March 30, making the same payable by Bankers (Lloyds Bank, Ltd.)	400	0	0
	Paid them by cheque	315	0	0
	Being allowed discount thereon	15	0	0

		£	s.	d.
Mar. 11	Drew upon the Northern Stores, Ltd., at 3 months' sight, which draft was duly accepted	1,000	0	0
" 12	Sold to Francis & Co. on credit— 100 bags of coffee at 60s., less 2½ per cent. Trade Discount	292	10	0
" 12	Received from the Northern Stores, Ltd., cheque for And paid the same to the Bank.	850	0	0
	Allowed the Northern Stores, Ltd. (discount) ...	22	0	0
" 13	*Paid, from Office Cash, salaries and wages to date...*	*12*	*10*	*0*
" 15	*Paid by cheque to the Wynaad Coffee Co., Ltd. ...*	*1,000*	*0*	*0*
	Being allowed discount by them	10	0	0
" 16	Paid from Office Cash for electric light fittings	5	7	9
" 17	Sold for cash (placed in Office Cash)—			
	3 bags of coffee at 50s.	7	10	0
	10 chests of tea at 60s.	30	0	0
" 19	Sold on credit to the Northern Stores, Ltd.—			
	500 bags of coffee at 58s. per bag, net	1,450	0	0
	5 chests of tea at 62s. per chest, net	15	10	0
" 19	The Northern Stores, Ltd., returned as unsuitable 5 chests of tea sold them (allowed them therefor full invoice price)	15	10	0
	10 bags of coffee sold them (allowed them therefor full invoice price)	29	0	0
" 20	Bought from the Wynaad Coffee Co., Ltd., on credit— 500 bags of coffee at 46s. per bag, less 5 per cent. Trade Discount	1,092	10	0
" 20	Paid from Petty Cash—			
	Housekeeper and cleaning to date	2	5	0
	Fires to date	0	8	6
	Postages and Telegrams to date	0	9	6
	Fire Insurance premium (in advance) for 1 year from March 25th (debit Insurance Account)	1	10	0
" 20	Received from the Northern Stores, Ltd., cheque on account	1,000	0	0
	Allowed them discount thereon	10	0	0
" 20	Returned to the Wynaad Coffee Co., Ltd.— 100 bags of the coffee bought from them on Mar. 20, the same being found to be "not up to sample." Received a credit note, for returns, from them for full price, *i.e.* 100 bags at 46s. per bag, less 5 per cent. Trade Discount......	218	10	0
" 22	Received from Francis & Co. cheque for £65 10s., and banked the same	65	10	0
" 22	Bought at auction from R. Levy freehold premises, 4590 Minories, for	3,000	0	0
	Of which paid by cheque	1,000	0	0
	The balance (£2,000) to be paid upon the formal transfer of the property.			
" 22	The Bank notify that Francis & Co.'s cheque has been returned to them dishonoured	65	10	0
" 23	Discounted with the Bank the Northern Stores Co.'s acceptance for	1,000	0	0
	Being charged discount therefor	8	15	5
" 23	Francis & Co. offer to discharge the amount of their dishonoured cheque as follows—			
	1. By their acceptance at 30 days' sight, endorsed by Brown & Co., for	50	0	0
	2. By cheque for	15	10	0
	Accepted their offer and received cheque and acceptance, paid the former to Bank, through whom it was duly honoured.			
" 24	Borrowed from the Property & Mortgage Trust, Ltd., at 6 per cent. per annum, upon the security of 4590 Minories. Received their cheque (paid same to Bank)	1,500	0	0
	Simultaneously with receipt of the foregoing cheque J. Harris received from Mr. R. Levy's solicitors the deeds relating to 4590 Minories in exchange for his cheque for £2,000, balance of purchase money, and these deeds, together with the Mortgage Deed, were duly handed to the Property & Mortgage Trust, Ltd. ...	2,000	0	0

			£	s.	d
Mar	24	Paid R. Levy, by cheque, value of Fixtures at 4590 Minories (Furniture and Fixtures Account)	10	5	9
,,	25	Francis & Co. this day suspended payment.			
,,	25	Sold to Wrightson Bros. on credit— 50 bags of coffee at 52*s*. per bag	130	0	0
,,	26	Paid by cheque to the Forwarding Agency, Ltd., charges for carriage on sundry bags of coffee *and chests of tea dispatched through them to the purchasers thereof*	*26*	*18*	*4*
,,	*27*	*Received from Wrightson Bros. their acceptance at* 3 months' date for	125	10	0
		Allowed them discount thereon	4	10	0
,,	29	Drew from Bank for Office Cash	50	0	0
,,	29	Drew from Bank for Petty Cash, in order to increase the Cashier's agreed balance to £30	10	0	0
,,	30	Paid, from Office Cash, salaries and wages to date	13	5	0
,,	30	Bills Payable held by Produce Importing Co., Ltd., met to-day through the Bank	400	0	0
,,	31	Paid, from Petty Cash—			
		Housekeeper and cleaning to date	3	9	0
		Fires to date	0	10	9
		Postages and Telegrams to date	0	13	6
		Travelling Expenses to date	4	3	9
		3 bottles of Ink	0	3	6
		Repairs to Office Desk	0	3	9
,,	31	Sold for cash (placed in Office Cash), 10 bags of coffee at 62*s*. net	31	0	0
,,	31	Drew cheque on bankers to restore Petty Cashier's balance to £30	9	5	6
		Note.—The following provisions are to be made at the end of the month—			
		Stocks on hand are to be valued as under—			
		1,073 bags of coffee at 55*s*. per bag	2,950	15	0
		10 chests of tea at 60*s*. per chest	30	0	0
		2. One month's depreciation is to be written off Leasehold Land and Buildings at the rate of £100 per annum	8	6	8
		3. Eleven months' fire insurance premium paid in advance is to be carried forward		7	6
		4. A provision for the loss on the debt due from Francis & Co. and on the bill held bearing their acceptance is to be made, of	85	0	0
		5. Provision is to be made for sundry expenses due but unpaid at the end of the month	52	10	0
		6. Fixtures and Fittings are to be depreciated at the rate of 12 per cent. per annum, nothing being written off the Fixtures and Fittings bought during the month, *i.e.* 1 month's depreciation is to be allowed for at 12 per cent. per annum on £120	1	4	0

Unless otherwise stated, all moneys are to be taken as having been paid into the Bank as and when received, and all payments to have been made by cheque.

Taking the details and transactions given in the above exercise *seriatim*, their method of treatment is as under—

The first matter to be dealt with is the opening of the books, as on March 1st, by means of a Journal entry incorporating the Assets and Liabilities at the commencement of the trading period, and showing the initial Capital with which J. Harris commenced business.

As indicated in Chapter VII, the Assets are ranged upon the *debit* side in the Journal entry, while the Liabilities are set out on the *credit* side; upon the credit

side also is inserted the figure necessary to make the two sides of the Journal entry agree. Such adjusting figure represents the *Initial Capital* embarked in the undertaking, or, in other words, the *net worth* of J. Harris at this date.

The opening Journal entry thus assumes the following form—

JOURNAL

		Dr.			Cr.		
19—		£	s.	d.	£	s.	d.
Mar. 1	Sundries— Dr.						
	To Sundries, viz.						
	Cash	2,049	16	6			
	Stock (Coffee on hand)	4,065	0	0			
	" (Tea on hand)	240	0	0			
	Lease of Warehouse and Land	1,500	0	0			
	Francis & Co.	65	10	0			
	Furniture and Fixtures	120	0	0			
	Wynaad Coffee Co.				2,050	16	5
	Capital Account (J. Harris)				5,989	10	1
	Being the Assets, Liabilities, and Capital at the commencement of business.						
		£8,040	6	6	£8,040	6	6

In this opening entry the receipt of the assets by the business, and the yield by it of the discharge of the liability is clearly demonstrated. Capital Account is credited with the balance representing the *net benefit* yielded by J. Harris to his business. It is to be observed, however, that in modern practice the Journal entries are often confined to the accounts concerned, *e.g.* " Cash Dr.", etc., the caption " Sundries Dr. To Sundries " being omitted.

The transactions for the month would then be dealt with in the books of J. Harris as under.*

March 1. *Drew from Bank for Office Cash*, £50.

The £50 is entered in the Cash Book on the credit side in the " Bank " Column, in order to record the withdrawal, and on the debit side in the " Office Cash " column, to record the receipt by the Office Cashier of the like sum, the bank having paid that amount, and the Cashier having received it. Office Cash is thus

* When following these transactions the student will readily see which account has received and which has yielded the benefit, in accordance with the principles of double entry book-keeping as explained in the earlier chapters of this treatise.

debited with the £50 received by it, and the bank is *credited* with the £50 which it has paid.

March 1. *Drew from Bank for Petty Cash*, £20.

The £20 is entered in the "Bank" column of the Cash Book upon the Credit side, and a debit entry is made in the Petty Cash Book recording the receipt of £20 by the Petty Cashier. The former entry is made by the Chief Cashier, or other official entrusted with the keeping of the Cash Book, and the latter entry is made by the Petty Cashier, who, wherever possible, should be a different person. The Petty Cashier is thus *debited* with the £20 because he has received that sum, and the bank is *credited* with the £20 which it has paid.

March 3. *Bought from the Produce Importing Company, Ltd., on Credit—*

	£	s.	d.
200 *bags Wynaad Coffee at* 50*s. per bag*	500	0	0
100 *chests Silhana Tea at* 46*s. per chest*	230	0	0
	£730	0	0

Immediately upon receipt of the Invoice from the Produce Importing Company, Ltd., the clerk in charge of the Purchases Book copies into it the details given above; the amount payable for the Coffee bought (£500) is entered in the "Coffee" analysis column of the Purchases Book, the amount payable for the Tea (£230) is entered in the "Tea" analysis column, and the total of the Invoice (£730) is extended into the total column in the Purchases Book. The posting of these items to the credit of the Produce Importing Company, Ltd., in their Ledger account, is subsequently effected by the Ledger-keeper from the Purchases Book, and the folio of the Ledger account in which the items appear is entered by him in the folio column of the Purchases Book, thus indicating to himself, and to all other persons concerned, that the necessary Ledger posting has been duly effected. The Purchases Book folio ("P" in this case) is entered in the folio column in the Ledger account.

The Purchases Account is thus *debited* with the £730 worth of goods received into the business, and the Produce Importing Company is *credited* with the £730 worth of goods which they have sold and delivered.

March 6. *Sold the Northern Stores, Ltd., on credit—*

	£	s.	d.
500 *bags coffee, medium, at* 56*s. per bag less* 2 *per cent. Trade Discount* .	1,372	0	0
200 *chests Tea at* 50*s. per chest net* .	500	0	0
	£1,872	0	0

The fact that this sale has taken place, and the details of which it is composed, appear in the Invoice Book kept by J. Harris, *i.e.* in the Carbon Book in which duplicates of the invoices rendered by him to customers are retained or filed for future reference.

From this book, the clerk in charge of the Sales Book records the sale in his Sales Book, entering the selling price of the Coffee sold in the " Coffee " analysis column, the price of Tea sold in the " Tea " analysis column, and extending the total in the " Total " column in manner similar to that indicated in the case of the purchase referred to in the preceding paragraph.

The posting of the item to the debit of the Ledger account of the Northern Stores, Ltd., is effected by the Ledger-keeper in the ordinary way as described above.

The Northern Stores, Ltd., are thus *debited* with the £1,872 worth of goods received by them, and Sales Account is *credited* with the £1,872 worth of goods delivered.

9. *Paid from Petty Cash—*

	£	s.	d.
For Envelopes and Letter-paper . . .	1	4	9
For Brass Door-plates (debit " Furniture and Fixtures " Account)	3	8	6
For Stamps	0	15	0

As and when the above payments are effected by the Petty Cashier, he enters them in his Petty Cash Book on the credit side in the total column. Such of the items as relate merely to expenses coming appropriately under any of the headings set out in the analysis columns of the Petty Cash Book are forthwith " extended " (*i.e.* entered more to the right-hand side of the book) in their respective analysis columns. Into this category fall the payments for Envelopes and Letter-paper (£1 4*s.* 9*d.*), and for Stamps (15*s.*); these items are consequently immediately extended respectively in the Stationery and Postages and Telegrams columns.

The remaining payment, viz. that for " Brass Door-

plates (£3 8*s*. 6*d*.)," requires to be debited to the Ledger account kept for the asset "Furniture and Fixtures," and this sum is consequently extended into the Ledger column upon the extreme right-hand side of the Petty Cash Book, with the name of the Ledger account (viz. Furniture and Fixtures) appended. From the item, thus extended, a debit entry is subsequently made by the Ledger-keeper in the Furniture and Fixtures Account in his Ledger, and the necessary double entry is thus completed. The Ledger folio is inserted in the folio column in the Petty Cash Book in the ordinary way, in order to indicate that the item has been duly posted.

The various expense accounts, "Stationery" and "Postages," are thus *debited* with the sums spent in these directions, and Furniture and Fixtures Account is debited with the cost of the new asset (brass door-plates) acquired, the Petty Cash being *credited* with the money spent.

March 10. *Accepted the Produce Importing Company Draft—*

	£	s.	d.
Due March 30 *for*	400	0	0
Paid them by Cheque	315	0	0
Being allowed Discount . . .	15	0	0
	£730	0	0

These transactions, in reality three in number, must first be mentally classified according to the particular book in which the original entry is to be effected.

The "acceptance" for £400 is a Bills Payable transaction, and therefore requires to be entered in that book; the other two transactions, together amounting to a cash payment coupled with a discount allowance, must obviously be recorded in the Cash Book.

The Bill Payable for £400 is consequently entered in the Bills Payable Book, the various details relating to it being recorded in the appropriate columns (*e.g.* "for whose account accepted," "where payable," etc.), and the amount is posted therefrom to the debit of the firm "for whose account accepted," *i.e.* the Produce Importing Company.

The amount of the cheque drawn (£315) in favour of the Produce Importing Company, Ltd., is entered (from the cheque counterfoil appearing in J. Harris's

cheque-book) in the Cash Book upon the credit side in the "Bank" column; the discount allowance received (£15) is entered upon the same line in the Cash Book, again upon the credit side, but in the "Discount" column. The total of the two items (£330), thus entered upon the credit side in the Cash Book, is posted to the debit of the Ledger account of the Produce Importing Company, Ltd., by the Ledger-keeper, the Ledger folio being entered in the Cash Book against the items, and the Cash Book folio ("C" in this case) being entered in the folio column in the Ledger.

The Produce Importing Company is thus *debited* with items amounting to £730, representing benefits received in the shape of cash and an acceptance given them and discount allowed by them, while Bills Payable is *credited* with £400, representing the benefit yielded in the shape of the liability incurred on the Bill Payable; "Cash" is credited with £315, representing the cash parted with, and Discount Account (*via* the Cash Book) is *credited* with £15 for a "profit" received.

March 11. *Drew upon the Northern Stores, Ltd., at* 3 *months' sight for* £1,000, *which draft was duly accepted.*

This bill, received by J. Harris, must be recorded in the Bills Receivable Book in a manner similar to, although with the reverse effect of, the Bill Payable referred to in the preceding entry.

Consequently the bill, with full particulars, is first entered in the Bills Receivable Book, and is posted from thence to the credit of the person "from whom received," *i.e.* the Northern Stores, Ltd., in the Ledger account kept for them by J. Harris's Ledger-keeper. The requisite posting is effected by the latter in the ordinary way.

Bills Receivable is thus *debited* with £1,000, representing the amount of the bill received, and the Northern Stores, Ltd., are *credited* with the value of the bill (£1,000) which they have given to J. Harris.

March 12. *Sold Francis & Co.* 100 *bags coffee at* 60*s.*, *less* 2½ *per cent. trade discount*, £292 10*s.* 0*d.*

This transaction is passed through the Sales Book, and is posted subsequently to the debit of Francis & Co.'s

Ledger account by the methods explained as applicable in the case of the sales described under date March 6.

It is to be noted that in the case of this sale, as also that made on March 6, the trade discount has been deducted before passing the transaction through the books.

Francis & Co. are thus *debited* with £292 10*s.* for the value of the goods sold to them, Sales Account being *credited* with £292 10*s.* for the goods parted with.

March 12. *Received from the Northern Stores, Ltd., cheque for* £850*; paid same to bank; allowed them discount*, £22.

The £850 is entered in the debit " Bank " column in the Cash Book, while the discount allowance (£22) is entered at the same time in the adjacent " Discount " column; the total, £872, is then posted to the credit of the Northern Stores, Ltd., in the Ledger account kept for them. The bank is thus *debited* with £850 because it has received a cheque for that sum, Discount is (*via* the Cash Book) *debited* with £22 because a " loss " of that amount has been sustained under this heading, being the measure of the service received in the shape of prompt payment, and the Northern Stores, Ltd., are *credited* with the £850 cheque with which they have parted, and with the £22 discount allowed to them for the service of paying promptly.

March 13. *Paid from Office Cash, Salaries and Wages to date*, £12 10*s.*

To record this item it is necessary to credit the " Office Cash " column on the credit side of the Cash Book with the £12 10*s.* paid away; the requisite double entry being completed by the posting of £12 10*s.* to the debit of the Wages and Salaries Account in the Ledger.

Salaries and Wages is thus *debited* with £12 10*s.* because this expense has been sustained as the reward of services received, and Office Cash is *credited* with £12 10*s.* because the Cashier has parted with the money.

March 15. *Paid by cheque to the Wynaad Coffee Company* £1,000
Being allowed discount £10

The £1,000 is entered on the credit side of the Cash Book in the " Bank " column, thus indicating the

drawing of a cheque of that value; the discount is placed in the "Discount" column on the same side of the Cash Book, and the total (£1,010) is posted ot the debit of the Wynaad Coffee Company in the Ledger.

The Wynaad Coffee Company, Ltd., is thus *debited* with £1,010 "cash and discount" because they have received the one and allowed the other. The bank is *credited* with £1,000 because it has parted with this sum, and Discount is *credited* with £10 because this "profit" has been received.

March 16. *Paid from Office Cash for Electric Light Fittings*, £5 7*s*. 9*d*.

The "Office Cash" column on the credit side of the Cash Book is credited with £5 7*s*. 9*d*., representing the disbursement of that sum from the Office Cash, and Furniture and Fixtures Account is debited with the same sum. Furniture and Fixtures is thus *debited* with £5 7*s*. 9*d*., representing assets acquired, and Office Cash is *credited* with £5 7*s*. 9*d*., representing money paid.

March 17. *Sold for cash* (*placed in Office Cash*)—

3 *bags coffee at* 50*s*.	£7	10	0
10 *chests tea at* 60*s*.	£30	0	0

These sales are not sales "upon credit," and, consequently, need not be recorded in the Sales Book, which, it will be remembered, is restricted to sales "upon credit."

It will be remembered that a Sales Account is opened in the Ledger to which is posted the total of the Sales Book at the end of the period, and it is in this account that, in the present example, the cash sales effected have been credited. In businesses where Cash Sales are frequent a separate Ledger account is kept for Cash Sales, the total of which is merged with the total of the Credit Sales at the end of the trading period; or, as an alternative, a separate column in the Cash Book for Cash Sales may be employed, in which the daily total of the Cash Sales is entered, the total of the column being posted, in due course, each month, to a Cash Sales Account in the Ledger. In the present example, however, the Cash Sales, not being numerous, have been posted direct from the Cash Book to the Sales Account in the Ledger.

The entry consequently is—

The "Office Cash" column on the debit side of the Cash Book is *debited* with the two items (£37 10*s.*), representing the receipt by the Office Cashier of the proceeds of the Cash Sales, and Sales Account in the Ledger is *credited* with the like sum, representing goods parted with.

March 19. *Sold on credit to the Northern Stores, Ltd.*—

	£	*s.*	*d.*
500 bags coffee at 58s. per bag net .	1,450	0	0
5 chests tea at 62s. per chest net .	15	10	0
	£1,465	10	0

These sales are passed through the Sales Day Book, the items being entered in the proper analysis columns upon lines similar to the sale effected on March 6, to the same purchaser. The Northern Stores, Ltd., are thus *debited* with £1,465 10*s.* for the value of the goods received by them, and Sales Account is *credited* with £1,465 10*s.* for the goods parted with.

March 19. *The Northern Stores, Ltd., returned as unsuitable*—

5 chests tea sold them	£15	10	0
10 bags coffee	£29	0	0

Allowed them full invoice price therefor.
(*£44 10s. 0d. in all.*)

"Returns Inwards" of this kind are, for book-keeping purposes, and as has already been explained (Chapter VIII), dealt with in the books of the original seller as re-purchases of goods previously sold, and must be recorded in the Returns Inwards Book upon lines similar to those which would be adopted if the transaction represented an original purchase of goods from the Northern Stores, Ltd., instead of being a re-purchase of goods from them.

The £15 10*s.* allowed for the Tea returned is thus entered in the Returns Inwards Book, with appropriate details, the amount being placed in the "Tea" analysis column, while the £29 allowed for the Coffee returned is similarly entered in the "Coffee" column of the same book, and the total (£44 10*s.*) is extended into the "total" column. From this book the allowances for Returns Inwards are posted to the credit of the Northern

Stores, Ltd., in their Ledger account. Returns Inwards Account is thus *debited* with £44 10*s.* for the value of the goods received back, and the persons from whom they were received, viz. the Northern Stores, Ltd., are *credited* with £44 10*s.* for goods with which they have parted.

March 20. *Bought from the Wynaad Coffee Company, Ltd., on credit,* 500 *bags coffee at* 46*s. per bag, less* 5 *per cent. trade discount,* £1,092 10*s.*

This purchase is entered in the Purchases Book, and is posted to the credit of the Wynaad Coffee Company, Ltd., in the ordinary way. Purchases Account is *debited* with £1,092 10*s.*, being the value of the goods received, and the Wynaad Coffee Company, Ltd., is *credited* with £1,092 10*s.* for goods with which it has parted.

March 20. *Paid from Petty Cash—*	£	*s.*	*d.*
Housekeeper and cleaning to date . .	2	5	0
Fires to date	0	8	6
Postages and Telegrams to date . .	0	9	6
Fire Insurance Premium in advance for one year from March 25th (Debit Insurance Account)	1	10	0
	£4	13	0

These payments are entered, as and when made, upon the credit side of the Petty Cash Book, in the total column.

Such of these items (in point of fact the first three payments) as fall under any of the " expense " headings inserted in the analysis columns following the credit " Total " column are extended under their appropriate headings. Hence the £2 5*s.* and the 8*s.* 6*d.* are inserted under " Housekeeper, Fires and Cleaning," while the 9*s.* 6*d.* is entered under " Postages and Telegrams."

The remaining item requires to be debited to a separate account in the trader's Ledger (*i.e.* " Insurance Account "), and it is consequently extended into the " Ledger Account " column, with the name of its correct Ledger account appended, and the posting of the item to the debit of Insurance Account is subsequently effected from the Petty Cash Book. The respective " expense " accounts are thus *debited* with the sums spent in the various directions indicated. Insurance

Account is *debited* with £1 10*s.* for the benefit received from the protection acquired against fire, and Petty Cash is *credited* with £4 13*s.* in all because it has paid the money.

March 20. *Received from the Northern Stores, Ltd., cheque on account* £1,000
Allowed them discount £10

The debit " Bank " column in the Cash Book is debited with £1,000, the debit " Discount " column with £10, and the total of the two items, £1,010, is posted to the credit of the Ledger account of the Northern Stores, Ltd.

The bank is *debited* with £1,000 for the money received by it, " Discount " is *debited* with £10 for a " loss " sustained in this direction, while the Northern Stores, Ltd., are *credited* with £1,010 for the cash received from them and the discount allowed to them.

March 20. *Returned to the Wynaad Coffee Company, Ltd.,* 100 *bags coffee, invoiced at* 46*s. per bag, less* 5 *per cent. trade discount,* £218 10*s.*

This " Return Outwards " is recorded through the Returns Outwards Book, from which a posting for £218 10*s.* to the debit of the Ledger account of the Wynaad Coffee Company, Ltd., is made. The transaction is thus treated as a re-sale to the Wynaad Coffee Company, Ltd., of goods previously bought from it.

The Wynaad Coffee Company, Ltd., is thus *debited* with £218 10*s.* for the value of goods returned to them, Returns Outwards being *credited* with £218 10*s.* because goods to this amount have been parted with.

March 22. *Received from Francis & Co. cheque for* £65 10*s.*, *and banked same.*

The " Bank " column in the Cash Book is *debited* with £65 10*s.* because it has received a cheque of that value, while Francis & Co. are *credited* with the amount of the cheque received from them.

March 22. *Bought at auction from R. Levy freehold premises,* 459c *Minories, for* £3,000, *for which paid by cheque* £1,000, *the balance to be paid on formal transfer of the property.*

This is a twofold transaction, and must be recorded as such; the first transaction to be recorded is the purchase

of the premises from R. Levy for £3,000, for which a Journal entry must be passed, viz. debiting Freehold Premises with £3,000, and crediting R. Levy with the like sum (£3,000).

Freehold Premises is *debited* with £3,000 because premises have been acquired at that cost, and R. Levy is *credited* with £3,000 because he has parted with premises for that amount.

The second transaction to be entered is the payment of £1,000 to R. Levy in reduction of the amount owing to him. This item is entered in the ordinary way in the "Bank" column of the Cash Book, upon the credit side, and the necessary posting is effected to R. Levy's debit in the ordinary way.

R. Levy is *debited* with £1,000 because he has received a cheque for this sum, and "Bank" column is *credited* with £1,000 because the bank has parted with the like amount.

March 22. The Bank notifies that Francis & Co.'s cheque for £65 10*s. has been returned dishonoured.*

When this cheque was originally received it was debited in the "Bank" column of the Cash Book, and credited in Francis & Co.'s Ledger account upon the assumption that it would be duly met. Now that it has been "dishonoured," it becomes necessary to reverse the original entries, and to place matters, as regards Francis & Co.'s Ledger account, in the position which would have existed if the cheque had never been received.

An entry is consequently made in the Cash Book on the credit side in the "Bank" column, to offset the debit record previously placed in this book on the other side; and, to complete the record, Francis & Co.'s Ledger account is debited with £65 10*s*. according to the ordinary rules of Ledger posting.

Note.—Many banks credit their customers with cheques immediately they are paid in, irrespective of whether such cheques have been collected or not, debiting their customers subsequently with any of them that are afterwards returned unpaid. The Bank Pass Book will therefore, in all probability, tally exactly with the Cash Book as regards the entries recording the return of cheques.

Francis & Co. are *debited* with £65 10*s*. because they have become J. Harris's debtors in respect of the dis-

honoured cheque for that sum, and the bankers are *credited* with the same amount because, although previously treated as having received it, they have not in fact done so, and it therefore becomes necessary to reverse the original entry.

March 23. *Discounted with the Bank the Northern Stores Company's acceptance for* £1,000, *being charged discount*, £8 15*s*. 5*d*.

This again is an example of a combined transaction which, for book-keeping purposes, must be regarded as two transactions.

The first transaction is the parting, by J. Harris, with a bill for £1,000 to his Bankers, who are deemed (for book-keeping purposes) to have purchased it from him for its full face value; simultaneously, the bankers charge J. Harris a discount of £8 15*s*. 5*d*., for which amount a separate credit entry is made in the "Bank" column of the Cash Book; and the combined effect of this £1,000 entry on the one side and the £8 15*s*. 5*d*. entry on the other is that £991 4*s*. 7*d*. (being the actual price obtained by J. Harris on sale of the £1,000 bill) is added to the "Bank" balance in the Cash Book.

The necessary entries are consequently as follows—

1. The "Bank" column is *debited* with £1,000, because the bank has received the Bill of Exchange for that amount, while the Bills Receivable Account is credited with the £1,000 bill which had been parted with.

2. Bank Discount Account is *debited* with £8 15*s*. 5*d*. for an "expense" in this direction, and the "Bank" Column is *credited* with the like sum because the bankers have paid themselves by deducting this amount from the customer's balance which was in their hands.

March 23. *Francis & Co. offer to discharge the amount of their dishonoured cheque as follows—*

1. *By their acceptance at* 30 *days' sight for* £50 0 0
2. *By cheque for* £15 10 0

Accepted their offer, received acceptance and cheque (latter honoured).

The above entries must be treated as two separate transactions, and are then simple.

The acceptance received (£50) must be entered in the Bills Receivable Book in the ordinary way, and from

thence must be posted to the credit of Francis & Co.'s Ledger account.

The cheque received must be debited in the "Bank" column of the Cash Book, and must be posted thence to the credit of Francis & Co.'s Ledger account. Bills Receivable Account is *debited* with £50, the amount of the bill received, and Francis & Co. are *credited* with the same sum because they are the persons from whom it has been received. The bank is *debited* with £15 10*s*., because this amount has been received by it, and Francis & Co. are *credited* with £15 10*s*. because a cheque of that value has been received from them.

March 24. *Borrowed from the Property and Mortgage Trust, Ltd., at* 6 *per cent. per annum upon security of* 459c *Minories, received cheque and paid same to Bank*, £1,500.

Simultaneously with the receipt of the foregoing cheques J. Harris received from Mr. R. Levy's solicitors deed relating to 459c *Minories in exchange for his cheque for* £2,000, *balance of purchase money, and these deeds, together with Mortgage Deed, were handed to the Property and Mortgage Trust, Ltd.*

It will be seen that J. Harris has, simultaneously, (1) borrowed the money wherewith to complete his purchase of 459c Minories, (2) used that money to assist him in paying the further instalment due, and, as soon as the deeds came into his possession, (3) pledged them with the persons lending him the money by way of security for their advance.

This method of financing a purchase of property is common in cases where the trader is not prepared, or is unable, to lock up a large portion of his business capital in fixed assets.

The entries necessary in order to record the transactions enumerated above simply resolve themselves into those arising out of the two sums of cash changing hands, viz. a debit in the Cash Book ("Bank" column) for the £1,500 borrowed from the Property and Mortgage Trust, Ltd., this being duly posted to the credit of the Property and Mortgage Trust, Ltd., Loan on Mortgage Account. The other entry is a credit in the Cash Book ("Bank" column) for the £2,000 paid to R. Levy, the like sum being debited in due course to his account in the Ledger.

The Cash Book ("Bank" column) is thus *debited* with £1,500, because the bank has received the money, and the Property and Mortgage Trust, Ltd., are *credited* with the same sum because they have parted with it.

The Cash Book ("Bank" column) is *credited* with £2,000 because the bank has parted with this sum, and R. Levy is *debited* with the same amount because he has received it.

March 24. *Paid R. Levy, by cheque, value of fixtures at* 459c *Minories (debit Furniture and Fixtures Account)*, £10 5*s*. 9*d*.

When agreeing the terms for the sale of buildings it is customary for the purchaser to pay for such removable fixtures as he wishes to retain, a valuation being arrived at as between vendor and purchaser, or, alternatively, a price being fixed by a valuer appointed with the consent of both parties.

The entry necessary in order to record the transaction is a credit in the Cash Book ("Bank" column), coupled with a debit to the Furniture and Fixtures Account. Furniture and Fixtures Account is *debited* with £10 5*s*. 9*d*. because assets answering to this description and value have come into the business, and the bank is *credited* with £10 5*s*. 9*d*. because that sum has been parted with by it.

March 25. *Francis & Co. this day suspended payment.*

"Suspension of payment" does not necessarily always imply inability ultimately to pay all debts in full, although the implication is usually justified.

Even though a debtor be insolvent it does not necessarily follow that some portion of his debt will not be eventually recovered; consequently it would be incorrect upon the happening of a suspension of payment, as in this case, to write off the whole of Francis & Co.'s debt as "bad." It is customary to wait until further details are forthcoming; and, in the meantime, to make no entry in the books beyond a memorandum in the Ledger of such facts as are to hand. At the close of a trading period this, and similar accounts, would come under review when provision for "Bad and Doubtful Debts" was being considered.

March 25. *Sold Wrightson Bros. on credit* 50 *bags coffee* at 52*s*. *per bag net*, £130.

This transaction is entered in the Sales Book, and is thence debited to Wrightson Bros. in the ordinary way.

Wrightson Bros. are *debited* with £130 because they have received goods to that amount, and Sales Account is *credited* with a like sum because goods of that value have been parted with.

March 26. *Paid by cheque to the Forwarding Agency, Ltd., charges for carriage of sundry bags of coffee and chests of tea despatched through them to the purchasers thereof*, £26 18*s*. 4*d*.

It is not necessary to open a Ledger account for the Forwarding Agency, Ltd., for an isolated item such as this.

The usual way to record a transaction of this kind is to debit the amount of the cheque *direct* from the Cash Book to the Carriage and Cartage Account in the Ledger. The entry is consequently—

Credit the " Bank " column in the Cash Book with £26 18*s*. 4*d*., because the bank has parted with the money, and *debit* the Carriage and Cartage Account with £26 18*s*. 4*d*., because that sum has been expended on carriage and cartage (the benefit received).

	£	*s*.	*d*.
March 27. *Received from Wrightson Bros. their acceptance at three months' date for*	£125	10	0
Allowed them discount	£4	10	0

If cash for the above amount had been received from Wrightson Bros., the discount allowed them could have been recorded, in company with the cash entry, through the usual medium of the Cash Book. There is, however, no column in the Bills Receivable Book in which to record the discounts allowed upon the payment of accounts " by acceptance," and the above transactions must consequently be recorded separately.

The acceptance received from Wrightson Bros. must be entered in the Bills Receivable Book, and thence posted to their credit in the ordinary way.

Bills Receivable Account is thus *debited* with £125 10*s*. because a Bill Receivable for that sum has come in,

and Wrightson Bros. are *credited* with £125 10*s*. because they have parted with a bill for that amount.

Of course, a *direct* entry, crediting Wrightson Bros. and debiting Discount Account, could be made, but such entries present loopholes for error, and the proper way to record the transaction is to pass an entry through the Journal proper, there being no book of original entry available for transactions of this sort.

A Journal entry, debiting Discount Account, and crediting Wrightson Bros., is consequently made and posted to the respective Ledger accounts.

Discount Account is thus *debited* with £4 10*s*. because Discount Account has received the service of prompt payment, for which the trader has "allowed" that sum, and Wrightson Bros. are *credited* with £4 10*s*. because the discount allowance made to them corresponds in effect to a payment in kind received from them.

March 29. *Drew from Bank for Office Cash*, £50.

For this transaction it is necessary to credit the "Bank" column on the credit side of the Cash Book, and to debit the "Cash" column on the debit side of the same book, as in the case of the withdrawal made on March 1.

Office Cash is *debited* with £50 because it has received the money, and the bank is *credited* with £50 because it has parted with that sum.

March 29. *Drew* £10 *from Bank for Petty Cash, in order to increase the Cashier's agreed balance to* £30.

It will be remembered that, when employing the "Imprest" system of keeping Petty Cash, the Petty Cashier is, at the beginning of a given period, started with an agreed round sum of cash in hand, and that, at the end of certain stated periods (*e.g* monthly), the balance he has in hand is restored to its original figure by means of a cheque drawn on the firm's banking account for the exact sum he has expended during the preceding period.

In the case of J. Harris's cashier a balance of £20 was originally agreed as sufficient to cover the estimated expenditure of each month, but, for various reasons, it was subsequently decided to raise the limit to £30; a cheque for £10 was therefore drawn to place the Petty

Cashier in the same position as if he had originally received £30 at the beginning of the month.

The necessary entry to record this further £10 corresponds exactly with that which was made at the commencement of the month, when £20 was drawn for Petty Cash purposes. The " Bank " column in the Cash Book is consequently credited with £10 and the debit side of the Petty Cash Book is debited with the same sum.

The Petty Cashier is *debited* with £10 because he has received the money, and the " Bank " column in the Cash Book is *credited* with a like sum because it has parted with the money.

March 30. *Paid, from Office Cash, Salaries and Wages to date*, £13 5*s*.

To record this transaction it is necessary to credit the Cash Book (" Cash " column) and to debit Salaries and Wages Account in the Ledger. Office Cash is *credited* with £13 5*s*. because it has disbursed the money, and Salaries and Wages Account is *debited* with the same amount because it is in this direction that the money has been spent.

March 30. *Bill Payable, held by the Produce Importing Company, Ltd., met to-day through Bank*, £400.

Upon the above bill being presented to them, J. Harris's bankers will, in the ordinary course, have paid the amount of it to the holders and, at the same time, have debited J. Harris with the £400 so disbursed.

The necessary entry in J. Harris's books is a credit in the " Bank " column in the Cash Book, which in due course is posted to the debit of Bills Payable Account in the Ledger. Bills Payable Account is *debited* with £400 because the holder of the Bill Payable (who is included in the heading " Bills Payable ") has received the money, and the bank is *credited* in the Cash Book because it has parted with the money.

March 31. *Paid from Petty Cash—*	£	*s.*	*d.*
Housekeeper and Cleaning to date . .	3	9	0
Fires to date	0	10	9
Postages and Telegrams to date . .	0	13	6
Travelling Expenses to date . .	4	3	9
Three bottles of Ink . . .	0	3	6
Repairs to Office Desk . .	0	3	9

The foregoing payments are first entered as and when made in the "total" column on the credit side of the Petty Cash Book, and are then extended into their respective analysis columns, as in the case of the items of similar nature previously explained.

The £3 9*s*. and 10*s*. 9*d*. are extended into the column provided for Housekeeper, Fires and Cleaning; the 13*s*. 6*d*. as Postages and Telegrams; the £4 3*s*. 9*d*. as Travelling Expenses; the 3*s*. 6*d*. as Stationery; and the 3*s*. 9*d*. as Repairs. There are no items amongst these payments which require separate posting to the debit of Ledger accounts, and consequently there is nothing to extend in the "Ledger" column.

Petty Cash is *credited* with the above payments because it has parted with the money; and, *via* the Petty Cash Book, the "expense" accounts are *debited* with their respective amounts because the money has been expended in these connections.

March 31. *Sold for cash* (*placed in Office Cash*), 10 *bags of coffee at* 62*s*. *net*, £31.

Office Cash is *debited* with £31 because it has received the money, and Sales Account is *credited* with £31 because goods to that value have been parted with.

March 31. *Drew cheque for* £19 5*s*. 6*d*. *in order to restore Petty Cashier's Balance to* £30.

Petty Cash must be *debited* with £19 5*s*. 6*d*., because it has received the money, and the Bank Account must be *credited* with the same sum because it has parted with it.

The foregoing transactions having thus been duly recorded in the books it remains—

1. To make the additions of, and to post to their respective Ledger accounts, the various Journals, the Discount columns of the Cash Book, and the analysis columns of the Petty Cash Book.
2. Thereafter to extract the Trial Balance as a preliminary step to the final closing of the books.

Taking the Journals first—

(*a*) The Sales Journal and the Returns Outwards Book are added up and their totals are posted

to the *credit*, respectively, of the Sales Account and the Returns Outwards Account, the distinctions as to the analysis columns being everywhere followed.

(*b*) The Purchases Journal and the Returns Inwards Book are added up and their totals are posted to the *debit*, respectively, of the Purchases Account and the Returns Inwards Account.

(*c*) (1) The Bills Payable and (2) the Bills Receivable Books are added up, and their totals are posted respectively (1) to the *credit* of the Bills Payable Account and (2) to the *debit* of the Bills Receivable Account.

Next as regards the Cash Book—

(*d*) The totals of the Discount columns having been ascertained, the total of the *debit* Discount column appearing in the Cash Book is posted to the *debit* of the Discount Account in the Ledger, and the total of the *credit* Discount column is posted to the *credit* of the Discount Account in the Ledger. The student is sometimes perplexed by the fact that the totals of these discount columns do not follow the general posting rule of appearing on the *opposite* side of the relative Ledger account. But it has already been explained that, although, for convenience' sake, these transactions are recorded (as memoranda) in the Cash Book, they are really of the nature of Journal entries and, therefore, since the individual amounts have been correctly posted to the *opposite* side of the relative personal accounts, the totals of the Discount Columns must, like those of the Purchases and Sales Journals, be posted to the *same* side of the Discount Account. In other words, these memorandum entries really consist of the details of the Ledger Account to which they are posted in total, just as do the detail entries of Sales, Purchases, and Returns.

As regards the Petty Cash Book, the analysis columns are added throughout, whereupon—

(e) The totals of the various "expense" analysis columns appearing in the Petty Cash Book are posted in the Ledger to the *debit* of the relative Ledger accounts, *e.g.* the £1 18*s*., total of the Postages and Telegrams analysis column, is posted to the *debit* of the Postages and Telegrams Account in the Ledger.

Finally, the Cash Book ("Office Cash" and "Bank"), and the Petty Cash Book are added up and the balances appearing thereon are brought down.

When the totals set forth above have been posted, the double entry recording the twofold aspect of the transactions passing through the Journals, Cash Book, and Petty Cash Book has been completed, and, if a Trial Balance be now extracted, its two sides should, if the book-keeping has been correct, agree exactly.

The Trial Balance extracted from J. Harris's books will be found on page 205, and it will be seen that the total debits equal the total credits.

Having completed the Trial Balance it now becomes possible—

1. To compile J. Harris's Trading Account and Profit and Loss Account for the month of March.
2. Thereafter to construct a Balance Sheet for the purpose of showing J. Harris's financial position at the end of the month.

All the transactions in "goods" have, as has already been explained, been placed, each according to its type, in separate classified Ledger accounts, viz. "Stock," "Sales," "Purchases," "Returns Inwards" and "Returns Outwards"; and, for the purpose of combining these items and constructing a Trading Account, it is necessary to transfer to the latter all the balances remaining upon these subsidiary accounts.

The first item to be placed in the Trading Account is the stock of goods on hand as on March 1 with which the trading for the month was commenced; this, as will be seen by a reference to the Stock Account (Ledger folio 24), amounted to £4,305, and for this sum a Journal

entry, debiting Trading Account and crediting Stock Account, is passed through the necessary books. The student will remember that the stock was handed over by the "old trading period" (which took credit for it) to the present, or "new trading period," which is debited with having received it.

The next class of item to be considered is that of Purchases, and here the effect of the Returns Outwards upon the balance appearing upon the Purchases Account must be considered. It will be remembered that Returns Outwards are Purchases which, for one reason or another, have been returned to the seller soon after delivery; and that, although in the Ledger account kept for Purchases no note of the deduction of the Returns appears, nevertheless the Returns Outwards are included in, and *pro tanto* inflate, the Purchases figure. Therefore they must be *deducted* in compiling the Trading Account in order to show the *net* amount of the actual Purchases at its true and proper figure.

In order to close the Purchases Account a Journal entry must be passed, crediting Purchases Account and debiting Trading Account with the total postings appearing to the debit of the former; but, in posting this debit in the Trading Account, the entry is inserted in the "detail" debit column immediately to the left of the debit column proper; in other words, the posting is entered "short" in the debit detail column.

At the same time, in order to close the Returns Outwards Account the credit balance of this account must be transferred by means of a Journal entry, debiting the Returns Outwards Account and crediting the Trading Account; but, for the reasons previously given, the posting of this Journal entry in the Trading Account is not made, according to the general rule, in the credit column of the account. The entry is effected on the *debit side*, in the *detail* column, immediately underneath the total purchases (which latter has already been there entered as set out above), and *as a deduction from the total of the purchases*; the net figure of purchases obtained by thus deducting the Returns Outwards from the gross purchases is then extended into the debit column proper.

Following the lines thus laid down, the Journal entries for the Purchases and Returns Outwards have been passed through the books, and the effect of the record of

these Journal entries in the Trading Account is to show the totals of the *net* purchases as under—

Purchases.		Coffee.	Tea.	Total.
	£ *s.* *d.*	£ *s.* *d.*	£ *s.* *d.*	£ *s.* *d.*
Coffee .	1,592 10 0	——	——	——
Less Returns .	218 10 0			
		1,374 0 0	——	1,604 0 0
Tea . .	230 0 0	——	230 0 0	

Conversely, in the case of the Sales and Returns Inwards a similar principle is followed, and the Sales are shown at their *net* figure in the Trading Account as under—

Sales.		Coffee.	Tea.	Total.
	£ *s.* *d.*	£ *s.* *d.*	£ *s.* *d.*	£ *s.* *d*
Coffee .	3,283 0 0	——	——	——
Less Returns	29 0 0			
		3,254 0 0	——	
Tea . .	545 10 0	——		3,784 0 0
Less Returns	15 10 0			
		——	530 0 0	

The initial stock of goods on hand and the Purchases and Sales having been dealt with, it remains to bring into the Trading Account the stock of goods on hand at the end of the month of March.

This requirement is effected by means of a Journal entry debiting the Stock Account, and crediting the Trading Account, with the amount of the stock on hand, at close of the period, as arrived at by actual valuation, viz.—

	£ *s.* *d.*
Coffee	2,950 15 0
Tea	30 0 0
Total . . .	£2,980 15 0

Here again, the *old* trading period is taking credit for the value of the stock it is handing over to a *new* trading period.

After this entry has been made in the Trading Account it becomes possible to ascertain the amount of the Gross

Profit derived from Trading for the month of March, as follows—

		£	s.	d.
Credit "Total" column	=	6,764	15	0
Debit "Total" column	=	5,909	0	0
Difference	=	£855	15	0

This difference, *i.e.* the amount necessary to be inserted in order to make the two sides of the Trading Account agree, is the **Gross Profit** for the period. It represents the bare excess of the selling prices obtained for the goods sold over what they have cost, without taking into account the various expenses involved in effecting the sales.

The totals of the postings appearing respectively to debit and credit in the "Coffee" and "Tea" analysis columns are deducted in manner analogous, and reveal the following departmental Gross Profits, viz. Coffee, £765 15*s.* 0*d.*; and Tea, £90. These departmental Gross Profits equal the Total Gross Profit shown in the Total column, and are inserted in their respective analysis columns, which in their turn are added up. Finally, the whole of the items on either side of the statement agree if "cross cast."

For the record of the Gross Profit, and for its subsequent transfer to the Profit and Loss Account, a Journal entry, as under, must be passed through the books and posted; the Trading Account can then be added up and ruled off. For the Trading Account prepared upon these lines see page 202.

By transferring the amount of the Gross Profit, ascertained by means of the Trading Account, to the credit of the Profit and Loss Account opened for the purpose, a further stage in the closing of the books has been reached, and the preparation of the Profit and Loss Account may now be entered upon.

Beyond the Gross Profit there is, in the example under consideration, no item of "profit" to be credited to the Profit and Loss Account. If such items had existed Journal entries would have become necessary for their transfer to the Profit and Loss Account.

It remains therefore to consider the building up of the debit side of the account, by means of the transfer thereto of all items of "loss" or "expense" chargeable against the profit for the period.

There are, set forth in the notes at the end of the example, certain adjustments which must be made in order to provide for special types of loss, and these provisions must be duly incorporated in the books. They are as under—

	£	s.	d.
(2) *One month's depreciation is to be written off the leasehold land and buildings*	8	6	8
(4) *A Provision for Bad and Doubtful Debts is to be created of* . .	85	0	0
(6) *Fittings and Fixtures are to be depreciated by*	1	4	0

For these three adjustments Journal entries are necessary.

Two other adjustments, as set out below, are also necessary, but it is possible to provide for them in carrying down the balances upon the respective accounts; and, although the ordinary Journal entries are passed closing those accounts by means of transfers to the Profit and Loss Account, special Journal entries are not needed in these cases.

	£	s.	d.
(3) *Eleven months' Fire Insurance premium paid in advance is to be carried forward*	1	7	6
(5) *Provision is to be made for sundry expenses due but unpaid at the end of the month*	52	10	0

For the depreciation necessary to be written off the Leasehold Land and Buildings, and for that which is to be written off the Fixtures and Fittings, a Journal entry has been made crediting the Asset Accounts with the amounts written off, viz. £8 6*s*. 8*d*. and £1 4*s*., and debiting Depreciation Account with the total of £9 10*s*. 8*d*.

For the amount which is to be reserved to cover the estimated loss on bad and doubtful debts, *i.e.* £85, a Journal entry has been passed debiting Profit and Loss Account, and crediting Provision for Bad and Doubtful Debts Account.

It then remains to transfer to the debit of the Profit and Loss Account the balances standing on all the "Expense" and "Loss" accounts in the Ledger, incidentally bringing adjustments (3) and (5), set out above, into the books at the time of so doing.

As regards adjustment (3), the Insurance Account in

the Trial Balance shows a debit balance of £1 10*s*., of which 2*s*. 6*d*. only is to be charged to the current Profit and Loss Account, leaving the *debit* balance of £1 7*s*. 6*d*. to be carried forward to the next trading period as a temporary asset, since the benefit of this service is handed on to the next period. In transferring the "Expense" from the Insurance Account to the Profit and Loss Account therefore the entry is only made for 2*s*. 6*d*., while the balance of the account (£1 7*s*. 6*d*.) is carried down and subsequently appears in the Balance Sheet as an asset.

Adjustment (5) is dealt with in the same manner, but in the reverse direction, as it represents expenses due but not paid for. A *credit* balance is brought down on the relative "Expense" Account, and is included in the Balance Sheet as a liability to be discharged in the new trading period.

A reference to the Trial Balance and to the General Expenses Account will show that this account already exhibits a debit balance of £8 5*s*. 3*d*. Provision for the £52 10*s*. of further expenses due but unpaid at the date of balancing is made—

1. By making, in the General Expenses Account, a debit entry for £52 10*s*. immediately below the items already posted in the account. This entry will be added up together with the previous debit postings, and the combined total of all the entries (£60 15*s*. 3*d*.) be transferred to the Profit and Loss Account.
2. By making a credit entry for £52 10*s*. in the General Expenses Account, well below the items on the debit side, and allowing space for ruling off the account. This entry represents the liability remaining to be satisfied, and, later on, is included in the Balance Sheet.

The total (£60 15*s*. 3*d*.) remaining on the debit side of General Expenses Account is subsequently transferred to Profit and Loss Account in the ordinary way, in company with other "expense" accounts; and the ruling off of the account leaves the £52 10*s*. credit entry standing as a liability in the account for satisfaction during the ensuing period.

The "losses" and "expenses" to be transferred to the debit of Profit and Loss Account are set forth in the

last Journal entry but one appearing in the Journal (see p. 189). When these items are duly posted in the Ledger all the "expenses" accounts (except the Insurance and General Expenses Accounts referred to above) are closed, and the balances then remaining upon the Ledger represent: (*a*) Assets; (*b*) Liabilities; (*c*) Capital Account; or (*d*) Profit and Loss Account (Balance).

The Profit and Loss Account, when all expenses have been duly posted in it, shows a balance to the credit amounting to £621 6*s*. 1*d*. This balance represents the **Net Profit** for the month, and must be transferred, by means of a Journal entry, to the credit of J. Harris's Capital Account. This is the last Journal entry set out in the Journal proper (see p. 189).

When the balance of the Profit and Loss Account has been transferred to the Capital Account, the process of closing the books is completed; and there now remain on the Ledger only such balances as are necessary for the construction of the Balance Sheet.

The Balance Sheet prepared from these balances will be found on page 204 and follows the lines laid down in Chapter X. The Assets are ranged in order of their realisability, commencing at the head of the column with the "least easily realisable" property.

There appear in the Balance Sheet the following instances of the grouping and classification of balances in order clearly to show the financial position.

On the Liabilities side the amount due to the Wynaad Coffee Company (£1,914 16*s*. 5*d*.) and the amount set aside for the outstanding expenses (£52 10*s*.) are set out together, and their combined total (£1,967 6*s*. 5*d*.), being the total amount owing by J. Harris to his creditors (except the £1,500 owing to the Property and Mortgage Trust, Ltd., on the Mortgage of 459c Minories), is extended into the principal debit column of the Balance Sheet. This procedure is followed in order to show, in one total, the amount due by J. Harris to his trade creditors. The amount due to the Property and Mortgage Trust, Ltd. being secured upon the premises at 459c Minories, is shown as a *deduction* from the cost of the property pledged (£3,000) on the Assets side of the Balance Sheet.

On the Assets side of the Balance Sheet the cost of 459c Minories ("Freehold Premises") is shown "short"

as £3,000, and the amount borrowed (£1,500) upon security of these premises is shown as a deduction; the balance of £1,500, representing the value of J. Harris's "equity of redemption," or interest in the property, after providing for the satisfaction of the mortgage, is extended into the principal credit column.

The amount due from Sundry Debtors (£703 10*s.*) (made up of £292 10*s.* due from Francis & Co., and £411 due from the Northern Stores, Ltd.) is shown "short" on the Credit side of the Balance Sheet, and immediately below the £703 10*s.* is shown the amount of the Bills Receivable on hand (£175 10*s.*); these items added together (still in the "short" column), and the amount set aside out of profits as a Reserve for Bad and Doubtful Debts (£85) is placed immediately underneath the total due and is then deducted from it. The net figure thus obtained (£794) represents the estimated actual value of the indebtedness to J. Harris of his customers, *i.e.* the net value of his Sundry Debtors and Bills Receivable, and it is this estimated "net" value which is extended into the principal column of the Credit side of the Balance Sheet.

It is usual, in practice, to extend the Bills Receivable as a separate item in the principal column on the Credit side of the Balance Sheet. In this instance the item has been added to the Sundry Debtors, as the provision of £85 for bad debts has not been divided in the "instructions" as between the two items.

The foregoing groupings and deductions have been made in order to show, with a minimum of unnecessary and cumbersome detail, the true financial position of J. Harris.

The various "Wasting" Assets, *e.g.* Leasehold Premises and Furniture and Fixtures, are stated, in accordance with the usual practice, as being included in the Balance Sheet at "cost less depreciation."

In practice, a provision would have to be made for the interest accrued to date on the Mortgage, but the amount is so small (being for only seven days), and it has been ignored. Such interest would be added to the mortgage in the Balance Sheet, and not included in the item "Trade Creditors."

PETTY CASH BOOK.

Dr. Date	Dr. Details	£ s. d.	Cr. Date	Cr. Details	Total £ s. d.	Postages and Telegrams £ s. d.	Stationery £ s. d.	Housekeeper Fires and Cleaning £ s. d.	Travelling Expenses £ s. d.	Repairs £ s. d.	Ledger Account	Ledger Folio	Ledger Amount £ s. d.
19— Mar. 1	To Cheque	20 0 0	19— Mar. 9	By Envelopes and Letter Paper ..	1 4 9		1 4 9						
„ 29	„ Cheque	10 0 0	„ 9	„ Door-plates	3 8 6						Furniture and Fixtures ...	3	3 8 6
„ 31	„ Cheque	19 5 6	„ 9	„ Stamps	0 15 0	0 15 0							
			„ 20	„ Housekeeper and Cleaning to date	2 5 0			2 5 0					
			„ 20	„ Fires to date ...	0 8 6			0 8 6					
			„ 20	„ Postages and Telegrams	0 9 6	0 9 6							
			„ 20	„ Fire Insurance Premium, one year from March 25th	1 10 0						Insurance	19	1 10 0
			„ 31	„ Housekeeper ...	3 9 0			3 9 0					
			„ 31	„ Fires	0 10 9			0 10 9					
			„ 31	„ Postages and Telegrams	0 13 6	0 13 6							
			„ 31	„ Travelling Expenses	4 3 9				4 3 9				
			„ 31	„ Ink, 3 Bottles ...	0 3 6		0 3 6						
			„ 31	„ Repairs to Office Desk..	0 3 9					0 3 9			
					19 5 6	£1 18 0	£1 8 3	£6 13 3	£4 3 9	£0 3 9			£4 18 6
			„ 31	„ Balance carried down	30 0 0	Dr. Ledger Folio 15.	Dr. Ledger Folio 17.	Dr. Ledger Folio 17.	Dr. Ledger Folio 16.	Dr. Ledger Folio 17.			
		£49 5 6			£49 5 6								
19— Mar. 31	To Balance brought down ...	30 0 0											

Dr. CASH

Date.			Discount. £	s.	d.	Cash. £	s.	d.	Bank. £	s.	d.
Mar. 1	To Balance brought forward								2049	16	6
" 1	" *Bank*— Amount drawn as per contra.	Contra				50	0	0			
" 12	" *Northern Stores, Ltd.*— Cheque and discount	8	22	0	0				850	0	0
" 12	" *Sales*— Cash sales : Coffee, 3 bags at 50*s*.	25				7	10	0			
	Tea, 10 chests at 60*s*.	25				30	0	0			
" 20	" *Northern Stores, Ltd.*— Cheque and discount	8	10	0	0				1000	0	0
" 22	" *Francis & Co.*— Cheque........	6							65	10	0
" 23	" *Bills Receivable*— For Northern Stores Co.'s acceptance discounted........	13							1000	0	0
" 23	" *Francis Co.*— Cheque on account	6							15	10	0
" 24	" *Property and Mortgate Trust, Ltd.*— Loan on 4590 Minories	10							1500	0	0
" 29	" *Bank*— As per contra	Contra				50	0	0			
" 31	" *Sales*— Cash sales : Ten bags coffee at 62*s*. net	25				31	0	0			
	Ledger Dr. Folio ..	18	£32	0	0						
						£168	10	0	£6480	16	6
19— Mar. 31	To Balance brought down	√				137	7	3	1505	1	6

CONTRA Cr.

Date.			Discount. £	s.	d.	Cash. £	s.	d.	Bank. £	s.	d.
19— Mar. 1	By *Office Cash* .... Amount drawn from Bank.	Contra							50	0	0
„ 1	„ *Petty Cash* .... Amount drawn from Bank.	P.C.							20	0	0
„ 10	„ *Produce Importing Co., Ltd.*— Cheque and Discount	7	15	0	0				315	0	0
„ 15	„ *Salaries and Wages*— Salaries and Wages to date	14				12	10	0			
„ 15	„ *Wynaad Coffee Co.*— Cheque and discount	5	10	0	0				1000	0	0
„ 16	„ *Furniture and Fixtures*— Electric Light fittings	3				5	7	9			
„ 22	„ *R. Levy*— On account of purchase price of 4590 Minories...............	11							1000	0	0
„ 22	„ *Francis & Co.*— Cheque dishonoured	6							65	10	0
„ 22	„ *Bank Charges*— Discount on Northern Stores's, Ltd., acceptance discounted as per contra ...	22							8	15	5
„ 24	„ *R. Levy*— Balance of purchase money 4590 Minories	11							2000	0	0
„ 24	„ *Furniture and Fixtures Account*— Fittings at 4590 Minories (R. Levy) ...	3							10	5	9
„ 26	„ *Carriage and Cartage*— Forwarding Agency, Ltd., carriage on sundry sales	23							26	18	4
„ 29	„ *Office Cash*— As per contra	Contra							50	0	0
„ 29	„ *Petty Cash*— To increase balance to £30..................	P.C.							10	0	0
„ 30	„ *Salaries and Wages*— Salaries and Wages to date	14				13	5	0			
„ 30	„ *Bills Payable*— Produce Importing Co.'s, Ltd., Bill due to-day	12							400	0	0
„ 31	„ *Petty Cash*— To restore balance to £30	P.C.							19	5	6
	Ledger Cr. Folio ...	18	£25	0	0						
„ 31	„ Balances carried down	√				137	7	3	1505	1	6
						£168	10	0	£6480	16	6

JOURNAL

			£	s.	d.	£	s.	d.
19—								
Mar. 1	Sundries Dr.							
	To Sundries—							
	Cash	C.B	2,049	16	6			
	Stock, Coffee on hand	24	4,065	0	0			
	Tea on hand	24	240	0	0			
	Lease of warehouse and land	2	1,500	0	0			
	Francis & Co.	6	65	10	0			
	Furniture and Fixtures	3	120	0	0			
	Wynaad Coffee Co.	5				2,050	16	5
	Capital Account, J. Harris	1				5,989	10	1
	Being Assets, Liabilities, and Capital at the commencement of business.							
			£8,040	6	6	£8,040	6	6
,, 22	Freehold Premises Dr.	4	3,000	0	0			
	To R. Levy	11				3,000	0	0
	For purchase price of 4590 Minories bought this day at auction.							
,, 27	Discount Account Dr.	18	4	10	0			
	To Wrightson Bros. ...	9				4	10	0
	Discount allowed them on payment by acceptance.							
,, 31	Trading Account Dr.	29	4,305	0	0			
	To Stock Account—							
	For stock as at March 1, transferred.							
	Coffee	24				4,065	0	0
	Tea	24				240	0	0
,, 31	Trading Account Dr.	29	1,867	0	0			
	To Sundries—							
	Viz. Purchases Account—							
	Coffee	26				1,592	10	0
	Tea	26				230	0	0
	Returns Inwards Account—							
	Coffee	28				29	0	0
	Tea	28				15	10	0
	For transfers.							
,, 31	Sundries Dr.							
	To Trading Account	29				4,047	0	0
	Viz. Sales Account—							
	Coffee	25	3,283	0	0			
	Tea	25	545	10	0			
	Returns Outwards Account—							
	Coffee	27	218	10	0			
	Tea		—	—	—			
	For transfers.							
	Carried forward		£13,223	10	0	£13,223	10	0

JOURNAL—*continued*

19—			£	s.	d.	£	s.	d.
	Brought forward		13,223	10	0	13,223	10	0
Mar. 31	Stock Account Dr.							
	Viz. Coffee	24	2,950	15	0			
	Tea	24	30	0	0			
	To Trading Account	29				2,980	15	0
	For Stock on Hand at March 31.							
„ 31	Trading Account Dr.	29	855	15	0			
	To Profit and Loss Account	30				855	15	0
	For Gross Profit for the month of March transferred.							
„ 31	Depreciation Account Dr.	21	9	10	8			
	To Leasehold Land and Buildings	2				8	6	8
	Fixtures and Fittings	3				1	4	0
	For depreciation for one month written off these accounts.							
„ 31	Profit and Loss Account Dr.	30	85	0	0			
	To Provision for Bad and Doubtful Debts	20				85	0	0
	For provision against loss on Francis & Co.'s debt.							
„ 31	Profit and Loss Account Dr.	30	49	8	11			
	To Sundries, viz.—							
	Wages and Salaries ...	14				25	15	0
	Postages and Telegrams	15				1	18	0
	Travelling Expenses ...	16				4	3	9
	General Expenses	17				60	15	3
	Discount	18				11	10	0
	Depreciation	21				9	10	8
	Insurance	19				0	2	6
	Bank Charges and Discount	22				8	15	5
	Carriage and Cartage	23				26	18	4
	For Balances transferred.							
„ 31	Profit and Loss Account Dr.	30	621	6	1			
	To J. Harris, Capital Account	1				621	6	1
	For Net Profit for the month of March now transferred.							
			£17,925	5	8	£17,925	5	8

NOTE.—As was explained when dealing with the Journal proper, many of the above items would, in actual practice, be dealt with by means of *direct* transfers from one Ledger account to another. It has been thought best, however, to set them out in full for the guidance of the student.

PURCHASES BOOK

Date.	Particulars.	Ledger Folio. (Cr.)	Coffee. £	s.	d.	Tea. £	s.	d.	Total. £	s.	d.
19— Mar. 3	*Produce Importing Co., Ltd.*— 200 bags of Wynaad coffee at 50*s.* ... 100 chests of Silhana Tea at 46*s.*	7	500	0	0	230	0	0	730	0	0
„ 20	*Wynaad Coffee Co., Ltd.*— 500 bags of coffee at 46*s.*, less 5 per cent. Trade Discount	5	1,092	10	0				1,092	10	0
	Debit Ledger Folio	26	£1,592	10	0	£230	0	0	£1,822	10	0

SALES BOOK

Date.	Particulars.	Ledger Folio. (Dr.)	Coffee. £	s.	d.	Tea. £	s.	d.	Total. £	s.	d.
19— Mar. 6	*Northern Stores, Ltd.*— 500 bags of coffee, medium, at 56*s.*, less 2 per cent. Trade Discount. 200 chests of tea at 50*s.* net	8	1,372	0	0	500	0	0	1,872	0	0
„ 12	*Francis Co.*— 100 bags of coffee at 60*s.*, less $2\frac{1}{2}$ per cent. Trade Discount	6	292	10	0				292	10	0
„ 19	*Northern Stores, Ltd.*— 500 bags of coffee at 58*s.* net ...... 5 chests of tea at 62*s.* net	8	1,450	0	0	15	10	0	1,465	10	0
„ 25	*Wrighison & Co.*— 50 bags of coffee at 52*s.* per bag net	9	130	0	0				130	0	0
	Credit Ledger Folio	25	£3,244	10	0	£515	10	0	£3,760	0	0

RETURNS INWARDS BOOK

Date.	Particulars.	Ledger Folio. (Cr.)	Coffee. £	s.	d.	Tea. £	s.	d.	Total. £	s.	d.
19— Mar. 19	*Northern Stores, Ltd.*— 5 chests of tea, invoiced at 62*s.* per chest net, returned as unsuitable	8				15	10	0			
	10 bags of coffee invoiced at 58*s.* per bag net, returned as unsuitable	8	29	0	0				44	10	0
	Debit Ledger Folio	28	£29	0	0	£15	10	0	£44	10	0

RETURNS OUTWARDS BOOK

Date.	Particulars.	Ledger Folio. (Dr.)	Coffee. £	s.	d.	Tea. £	s.	d.	Total. £	s.	d.
19— Mar. 20	*Wynaad Coffee Co., Ltd.*— 100 bags of coffee, invoiced at 46*s.* per bag, less 5 per cent. Trade Discount, returned as "not up to sample"...	5	218	10	0				218	10	0
	Credit Ledger Folio	27	£218	10	0				£218	10	0

BILLS PAYABLE BOOK

Date.	Number.	Drawer.	In whose favour drawn.	For whose account accepted.	Where payable.	Date of Bill.	Tenor.	Due date.	Ledger folio. (Dr.)	Amount. £	s.	d.	Remarks.
19— Mar. 10		Produce Importing Co.	Produce Importing Co.	Produce Importing Co.	Lloyds Bank, Ltd.	Mar. 9	Mar. 30	Mar. 30	7	400	0	0	
									Credit L.F. 12	£400	0	0	

BILLS RECEIVABLE BOOK

Date.	Number.	Acceptor.	Drawer.	From whom received.	Where payable.	Date of Bill.	Tenor.	Due date.	Ledger folio. (Cr.)	Amount. £	s.	d.	Remarks.
19— Mar. 11	1	Northern Stores, Ltd.	Self.	Northern Stores, Ltd.	Midland Bank, Ltd., York	Mar. 10	3 months' sight	June 14	8	1,000	0	0	
„ 23	2	Francis & Co.	Self.	Francis & Co.	Westminster Bank, Ltd., London	Mar. 22	30 days' sight	April 25		50	0	0	Endorsed by Brown & Co.
„ 27	3	Wrightson Bros.	Self.	Wrightson Bros.	Bank of England	Mar. 27	3 months' date	June 30		125	10	0	
									Debit L.F. 13	£1,175	10	0	

LEDGER

1 J. Harris, Capital Account 1

Dr. Cr.

			£	s.	d.				£	s.	d.
19— Mar 31	To Balance carried forward	√	6,610	16	2	19— Mar. 1	By Balance	J.	5,989	10	1
						„ 31	„ Net Profit for March	J.	621	6	1
			£6,610	16	2				£6,610	16	2
						19— Mar. 31	By Balance brought down ...	√	6,610	16	2

2 Lease of Land and Warehouse 2

Dr. Cr.

			£	s.	d.				£	s.	d.
19— Mar. 1	To Balance	J.	1,500	0	0	19— Mar. 31	By Transfer to Depreciation Account	J.	8	6	8
						„ 31	„ Balance carried forward	√	1,491	13	4
		£	£1,500	0	0				£1,500	0	0
19— Mar. 31	To Balance brought down ...	√	1,491	13	4						

3 Furniture and Fixtures 3

Dr. Cr.

			£	s.	d.				£	s.	d.
19— Mar. 1	To Balance	J.	120	0	0	19— Mar. 31	By Transfer to Depreciation Account...	J.	1	4	0
„ 9	„ Petty Cash—Door-plates	P.C.	3	8	6	„ 31	„ Balance carried forward	√	137	18	0
„ 16	„ Cash—Electric Light Fittings	C.	5	7	9						
„ 24	„ Cash—Fixtures and Fittings at 4590 Minories	C.	10	5	9						
			£139	2	0				£139	2	0
19— Mar. 31	To Balance brought down ...	√	137	18	0						

4 Freehold Premises (459c Minories, E.C.) 4

Dr. **Cr.**

			£	s.	d.				£	s.	d.
19— Mar. 22	To R. Levy purchase price of 459C Minories ...	J.	3,000	0	0						
			£3,000	0	0						

5 Wynaad Coffee Co., Ltd. 5

Dr. **Cr.**

			£	s.	d.				£	s.	d
19— Mar. 15	To Cash and Discount ...	C.	1,010	0	0	19— Mar. 1	By Balance	J.	2,050	16	5
„ 20	„ Returns 100 bags coffee ..	R.O	218	10	0	„ 20	„ 500 Bags coffee ...	P.	1,092	10	0
„ 31	„ Balance carried forward	√	1,914	16	5						
			£3,143	6	5				£3,143	6	5
						19— Mar. 31	By Balance brought down ...	√	1,914	16	5

6 Francis & Co. 6

Dr. **Cr.**

			£	s.	d.				£	s.	d.
19— Mar. 1	To Balance	J.	65	10	0	19— Mar. 22	By Cash ...	C.	65	10	0
„ 12	„ 100 bags coffee ...	S.	292	10	0	„ 23	„ Cash ...	C.	15	10	0
„ 22	„ cheque dishonoured ...	C	65	10	0	„ 23	„ Bill Receivable	B.R	50	0	0
						„ 31	„ Balance carried forward	√	292	10	0
			£423	10	0				£423	10	0
19— Mar. 31	To Balance brought down ...	√	292	10	0						

7 Produce Importing Co., Ltd. 7

Dr. Cr.

19—			£	s.	d.	19—			£	s.	d.
Mar. 10	To Bill payable	B.P	400	0	0	Mar. 3	By 200 bags coffee ...	P.	500	0	0
„ 10	„ Cash and discount ...	C.	330	0	0	„ 3	„ 100 chests tea	P.	230	0	0
			£730	0	0				£730	0	0

8 Northern Stores, Ltd. 8

Dr. Cr.

19—			£	s.	d.	19—			£	s.	d.
Mar. 6	To 500 bags coffee ...	S.	1,372	0	0	Mar. 11	By Bill Receivable	B.R.	1,000	0	0
„ 6	„ 200 chests tea	S.	500	0	0	„ 12	„ Cash and discount ...	C.	872	0	0
„ 19	„ 500 bags coffee ...	S.	1,450	0	0	„ 19	„ Returns 5 chests tea	R.I.	15	10	0
„ 19	„ 5 chests tea	S.	15	10	0		„ 10 bags coffee ...	R.I.	29	0	0
						„ 20	„ Cash and discount ...	C.	1,010	0	0
						„ 31	„ Balance carried forward	√	411	0	0
			£3,337	10	0				£3,337	10	0
19— Mar. 31	To Balance brought down ...	√	411	0	0						

9 Wrightson Bros. 9

Dr. Cr.

19—			£	s.	d.	19—			£	s.	d.
Mar. 25	To 50 bags coffee ...	S.	130	0	0	Mar. 27	By Bill Receivable	B.R	125	10	0
							„ Discount	J.	4	10	0
			£130	0	0				£130	0	0

10 **Property and Mortgage Trust, Ltd.** 10

(Loan Account on Mortgage)

Dr. Cr.

			£	s.	d.				£	s.	d.
						19— Mar. 24	By Cash—Loan at 6 per cent. p.a. on mortgage of 4590 Minories	C.	1,500	0	0
									£1,500	0	0

11 **R. Levy** 11

Dr. Cr.

			£	s.	d.				£	s.	d.
19— Mar. 22	To Cash deposit on purchase of 4590 Minories ...	C.	1,000	0	0	19— Mar. 22	By Purchase price 4590 Minories	J.	3,000	0	0
" 24	" Cash—Balance of purchase money, 4590 Minories ...	C.	2,000	0	0						
			£3,000	0	0				£3,000	0	0

12 **Bills Payable** 12

Dr. Cr.

			£	s.	d.				£	s.	d.
19— Mar. 30	To Cash—Produce Importing Co., Ltd., Bill honoured	C.	400	0	0	19— Mar. 31	By Sundries, as per Bills Payable Book ...	B.P	400	0	0
			£400	0	0				£400	0	0

13 **Bills Receivable** 13

Dr. Cr.

			£	s.	d.				£	s.	d.
19— Mar. 31	To Sundries, as per Bills Receivable Book	B.R.	1,175	10	0	19— Mar. 23	By Cash— Northern Stores', Ltd., acceptance discounted	C.	1,000	0	0
						„ 31	„ Balance carried down ...	√	175	10	0
			£1,175	10	0				£1,175	10	0
19— Mar. 31	To Balance brought down ...	√	175	10	0						

14 **Wages and Salaries** 14

Dr. Cr.

			£	s.	d.				£	s.	d.
19— Mar. 15	To Cash	C.	12	10	0	19— Mar. 31	By Transfer to Profit and Loss Account	J.	25	15	0
„ 30	„ Cash	C.	13	5	0						
			£25	15	0				£25	15	0

15 **Postages and Telegrams** 15

Dr. Cr.

			£	s.	d.				£	s.	d.
19— Mar. 31	To Petty Cash	P.C	1	18	0	19— Mar. 31	By Transfer to Profit and Loss Account	J.	1	18	0
			£1	18	0				£1	18	0

16 **Travelling Expenses** 16

Dr. Cr.

			£	s.	d.				£	s.	d.
19— Mar. 31	To Petty Cash	P.C.	4	3	9	19— Mar. 31	By Transfer to Profit and Loss Account	J.	4	3	9
			£4	3	9				£4	3	9

17 **General Expenses** 17

Dr. Cr.

			£	s.	d.				£	s.	d.
19— Mar. 31	To Petty Cash, viz.— Stationery ...	P.C	1	8	3	19— Mar. 31	By Transfer to Profit and Loss Account	J.	60	15	3
	Housekeeper (Fires and cleaning) ...	P.C	6	13	3						
	" Repairs ...	P.C		3	9						
" 31	" Balance carried forward (being provision for Expenses due but unpaid)	√	52	10	0						
			£60	15	3				£60	15	3
						19— Mar. 31	By Balance brought forward	√	52	10	0

18 **Discount Account** 18

Dr. Cr.

			£	s.	d.				£	s.	d
19— Mar. 27	To Wrightson Bros.	J.	4	10	0	19— Mar. 31	By Sundries, as per Cash Book	C.B	25	0	0
" 31	" Sundries, as per Cash Book	C.B	32	0	0	" 31	" Transfer to Profit and Loss Account	J.	11	10	0
			£36	10	0				£36	10	0

19 **Insurance** 19

Dr. Cr.

			£	s.	d.				£	s.	d.
19— Mar. 30	To Petty Cash— 1 year's Fire Insurance Premium paid in advance as from Mar. 25th	P.C	1	10	0	19— Mar. 31	By Transfer to Profit & Loss Account ...	J.	0	2	6
						" 31	" Balance carried forward	√	1	7	6
			£1	10	0				£1	10	0
19— Mar. 31	To Balance brought forward	√	1	7	6						

20 Provision for Bad and Doubtful Debts 20

Dr. Cr.

			£	s.	d.				£	s.	d.
						19— Mar. 31	By Transfer from Profit and Loss Account	J.	85	0	0
									£85	0	0

21 Depreciation 21

Dr. Cr.

			£	s.	d.				£	s.	d.
19— Mar. 31	To Transfer from Leasehold Land and Buildings Account	J.	8	6	8	19— Mar. 31	By Transfer to Profit and Loss Account	J.	9	10	8
„ 31	„ Transfer from Fixtures and Fittings Account	J.	1	4	0						
			£9	10	8				£9	10	8

22 Bank Charges and Bank Discount 22

Dr. Cr.

			£	s.	d.				£	s.	d.
19— Mar. 22	To Cash—Discount on Northern Stores' acceptance discounted	C.	8	15	5	19— Mar. 31	By Transfer to Profit and Loss Account	J.	8	15	5
			£8	15	5				£8	15	5

23 Carriage and Cartage 23

Dr. Cr.

			£	s.	d.				£	s.	d.
19— Mar. 26	To Cash—Forwarding Agency, Ltd., carriage on sundry goods sold............	C.	26	18	4	19— Mar. 31	By Transfer to Profit and Loss Account	J.	26	18	4
			£26	18	4				£26	18	4

Stock Account

24 Dr. | Cr. 24

Date.			Coffee.			Tea.			Total.			Date.			Coffee.			Tea.			Total.		
			£	s.	d.	£	s.	d.	£	s.	d.				£	s.	d.	£	s.	d.	£	s.	d.
19— Mar. 1	To Balance	J.	4,065	0	0	240	0	0	4,305	0	0	19— Mar. 31	By Transfer to Trading Account	J.	4,065	0	0	240	0	0	4,305	0	0
			£4,065	0	0	£240	0	0	£4,305	0	0				£4,065	0	0	£240	0	0	£4,305	0	0
19— Mar. 31	To Stock...	J.	2,950	15	0	30	0	0	2,980	15	0												

Sales Account

25 Dr. | Cr. 25

Date.			Coffee.			Tea.			Total.			Date.			Coffee.			Tea.			Total.		
			£	s.	d	£	s.	d.	£	s.	d.				£	s.	d.	£	s.	d.	£	s.	d.
19— Mar. 31	To Transfer to Trading Account	J.	3,283	0	0	545	10	0	3,828	10	0	19— Mar. 12	By Cash Sales	C.	7	10	0	30	0	0	37	10	0
												" 31	" Cash Sales	C.	31	0	0				31	0	0
												" 31	" Sales for the month as per Sales Book...	S.	3,244	10	0	515	10	0	3,760	0	0
			£3,283	0	0	£545	10	0	£3,828	10	0				£3,283	0	0	£545	10	0	£3,828	10	0

Purchases Account

26 Dr. | 26 Cr.

Date.			Coffee. £ s. d.	Tea. £ s. d.	Total. £ s. d.	Date.			Coffee. £ s. d.	Tea. £ s. d.	Total. £ s. d.
19— Mar. 31	To Sundry Purchases on credit for the month as per Purchases Book	P.	1,592 10 0	230 0 0	1,822 10 0	19— Mar. 31	By Transfer to Trading Account	J.	1,592 10 0	230 0 0	1,822 10 0
			£1,592 10 0	£230 0 0	£1,822 10 0				£1,592 10 0	£230 0 0	£1,822 10 0

Returns Outwards

27 Dr. | 27 Cr.

Date.			Coffee. £ s. d.	Tea. £ s. d.	Total. £ s. d.	Date.			Coffee. £ s. d.	Tea. £ s. d.	Total. £ s. d.
19— Mar. 31	To Transfer to Trading Account	J.	218 10 0		218 10 0	19— Mar. 31	By Sundry Returns for the month as per Returns Outwards Book	R.O	218 10 0		218 10 0
			£218 10 0		£218 10 0				£218 10 0		£218 10 0

Returns Inwards

28 Dr. | Cr. 28

Date.			Coffee. £ s. d.	Tea. £ s. d.	Total. £ s. d.	Date.			Coffee. £ s. d.	Tea £ s. d.	Total. £ s. d.
19— Mar. 31	To Returns Inwards for the month as per Returns Inwards Book.........	R.I.	29 0 0	15 10 0	44 10 0	19— Mar. 31	By Transfer to Trading Account	J.	29 0 0	15 10 0	44 10 0
			£29 0 0	£15 10 0	£44 10 0				£29 0 0	£15 10 0	£44 10 0

J. Harris.

Trading Account for the Month of March 19—

29 Dr. | Cr. 29

Date			Coffee. £ s. d.	Tea £ s. d.	Total. £ s. d.	Date.			Coffee. £ s. d.	Tea. £ s. d.	Total. £ s. d.
19— Mar. 1	To Stock..................	J.	4,065 0 0	240 0 0	4,305 0 0	19— Mar. 31	By Sales— Coffee ... 3,283 0 0 *Less* Returns ... 29 0 0	J.	3,254 0 0		
,, 31	To Purchases— Coffee ... 1,592 10 0 *Less* Returns ... 218 10 0	J.	1,374 0 0				Tea ...... 545 10 0 *Less* Returns ... 15 10 0	J.		530 0 0	3,784 0 0
	Tea 230 0 0			230 0 0	1,604 0 0	,, 31	,, Stock on Hand as per valuation	J.	2,950 15 0	30 0 0	2,980 15 0
,, 31	,, Balance, being Gross Profit, transferred to Profit and Loss Account	J.	765 15 0	90 0 0	855 15 0						
			£6,204 15 0	£560 0 0	£6,764 15 0				£6,204 15 0	£560 0 0	£6,764 15 0

J. HARRIS.

30 **Profit and Loss Account for the month of March 19—** 30

Dr. Cr.

Date	Particulars	Fo.	£	s.	d.	Date	Particulars	Fo.	£	s.	d.
19— Mar. 31	To Wages and Salaries	J.	25	15	0	19— Mar. 31	By Gross Profit brought from Trading Account	J.	855	15	0
" "	" Postages and Telegrams	J.	1	18	0						
" "	" Travelling Expenses	J.	4	3	9						
" "	" General Expenses	J.	60	15	3						
" "	" Discount	J.	11	10	0						
" "	" Depreciation— £ s. d. Fixtures and Fittings 1 4 0 Leasehold Land 8 6 8	J.	9	10	8						
" "	" Reserve for Bad and Doubtful Debts	J.	85	0	0						
" "	" Insurance	J.	0	2	6						
" "	" Bank charges and Bank discount	J.	8	15	5						
" "	" Carriage and Cartage	J.	26	18	4						
" "	" Balance, being Net Profit for the month, transferred to J. Harris's Capital Account ...	J.	621	6	1						
			£855	15	0				£855	15	0

J. HARRIS.

BALANCE SHEET, as on March 31, 19—

	£	s.	d.	£	s.	d.
SUNDRY CREDITORS—						
Trade Creditors	1,914	16	5			
Expenses outstanding	52	10	0	1,967	6	5
J. HARRIS'S CAPITAL ACCOUNT—						
Balance, March 1, 19—	5,989	10	1			
Add Profit for March	621	6	1	6,610	16	2
				£8,578	2	7

	£	s.	d.	£	s.	d.
FREEHOLD PREMISES, at cost	3,000	0	0			
Less Mortgage thereon	1,500	0	0	1,500	0	0
LEASEHOLD PREMISES, at cost	1,500	0	0			
Less Depreciation	8	6	8	1,491	13	4
FURNITURE AND FIXTURES, at cost	139	2	0			
Less Depreciation	1	4	0	137	18	0
INSURANCE paid in advance				1	7	6
STOCK ON HAND as per valuation ...				2,980	15	0
SUNDRY DEBTORS	703	10	0			
BILLS RECEIVABLE	175	10	0			
	879	0	0			
Less Reserve for Bad and Doubtful Debts	85	0	0	794	0	0
CASH AT THE BANK	1,505	1	6			
" IN HAND	167	7	3	1,672	8	9
				£8,578	2	7

Note.—The words "as on" in the heading may be, and usually are, omitted.

J. HARRIS.

TRIAL BALANCE, March 31, 19—

		Dr. £	s.	d.	Cr. £	s.	d.
1	J. Harris's Capital Account.........				5,989	10	1
2	Lease of Land and Warehouse ...	1,500	0	0			
3	Furniture and Fixtures Account	139	2	0			
4	Freehold Premises Account	3,000	0	0			
5	Wynaad Coffee Co.				1,914	16	5
6	Francis & Co.	292	10	0			
8	Northern Stores, Ltd.	411	0	0			
10	Property and Mortgage Trust, Ltd. (Loan Account)				1,500	0	0
13	Bills Receivable	175	10	0			
14	Wages and Salaries	25	15	0			
15	Postages and Telegrams	1	18	0			
16	Travelling Expenses	4	3	9			
17	General Expenses	8	5	3			
18	Discount Account	11	10	0			
19	Insurance	1	10	0			
22	Bank Charges and Bank Discount	8	15	5			
23	Carriage and Cartage	26	18	4			
24	Stock (March 1)—						
	Coffee	4,065	0	0			
	Tea	240	0	0			
26	Purchases Account	1,822	10	0			
25	Sales Account				3,828	10	0
28	Returns Inwards	44	10	0			
27	Returns Outwards				218	10	0
P.C.	Petty Cash	30	0	0			
C.B.	Cash at Bank	1,505	1	6			
C.B.	Office Cash	137	7	3			
		£13,451	6	6	£13,451	6	6

CHAPTER XII

CHEQUES AND BILLS OF EXCHANGE

Cheques

It has already been stated that, in Great Britain, the customary method of transferring money from one person to another, in commercial circles, is by means of the cheque system. The more general use of cheques has been fostered in recent years by the establishment of numerous banks throughout the country, very many of which are branches of one of five powerful financial institutions, having their head offices in London; viz., the Midland Bank, Ltd.; the Westminster Bank, Ltd.; Barclays Bank, Ltd.; Lloyds Bank, Ltd.; National Provincial Bank, Ltd. But there are many other important banks in this country, besides the "big five." The extent to which the cheque is now used in monetary transactions can be readily seen from the total amount of such documents passing through the Bankers' Clearing House in London, and the Clearing Houses in the large provincial cities. The total cheques and bills "cleared" (*i.e.* paid) in this way during the year 1929 was nearly forty-six thousand four hundred and ninety-six million pounds sterling.

The many disadvantages of discharging commercial obligations by means of coin have already been touched upon. These disadvantages were not by any means altogether removed by the issue of bank-notes, notwithstanding their portability. The very strength of the Bank of England note as a negotiable instrument is, in some respects, a drawback, since any holder can obtain value for a bank-note, whereas, as explained later, the payment of a cheque can be safeguarded.

The utility and advantages of bills of exchange in commercial transactions, both to the person "accepting" them and to the person "drawing" them, have already been referred to briefly, and it is now proposed to describe

the main features of cheques and bills of exchange in the forms in which they are usually met with in actual business transactions.

A **Cheque** may be defined as a written order, signed by a customer of a bank, directing the bank to pay on demand out of his (the customer's) account a stated sum of money to or to the order of a specified person, or to bearer. The statutory definition of a cheque is: "a bill of exchange drawn on a banker payable on demand."

There are three parties to every cheque, viz. the *drawer* (the person who signs the order); the *drawee* (the banker to whom the order is directed); the *payee* (the person to whom the sum of money expressed in the order is payable). But sometimes drawer and payee are the same person, *e.g.* when the drawer requires payment to be made to himself.

A specimen form of cheque appears on page 23. This cheque is an "order" cheque, since the drawers, J. Bird & Co., direct payment to be made to "Finch & Walker or order." It therefore requires "endorsement" by the persons to whom it is made payable. In other words, Finch & Walker must write their name on the back of the cheque in conformity with the description of the firm appearing on its face, before it can be presented for payment. If the word "Bearer" had been inserted in place of the word "Order" the cheque would be termed a "Bearer cheque," and would be payable without endorsement. It will be obvious that endorsement is a safeguard against the banker paying a cheque to the wrong person. Because of this "Order" cheques are much more frequently met with in commerce than "Bearer" cheques, although the latter are still used to a large extent between members of the London Stock Exchange.

A large proportion of the cheques drawn in discharge of financial obligations are never presented for actual encashment over the bank counter; they are paid by the holders into their own bank for collection, and in this manner reach the "Clearing House" in due course, where they are cancelled against one another, when the claims of the various banks, as between themselves, are daily adjusted (see pages 492 and 558).

The **"Payee" of an "Order" cheque, when endorsing the cheque, can, if he so** desires, direct payment of it to

some third party, *e.g.* if Finch & Walker had desired to send the cheque described above to Horace James for their credit, they could have endorsed it as follows—

"Pay Horace James or Order.
Finch & Walker."

and in this event, Horace James must himself endorse the cheque in order to obtain payment of it.

"Order" cheques, inasmuch as they need endorsement, can only be drawn in favour of persons or corporate bodies; but "Bearer" cheques, as they need no endorsement, can be drawn for, or in favour of, "expenses" or particular purposes—

e.g. "Pay Wages . . . or Bearer."
"Pay Cash . . . or Bearer."

One advantage of this course is that a memorandum of the specific purpose for which the cheque is drawn is recorded upon the counterfoil of the cheque, and is available for future reference in case of need.

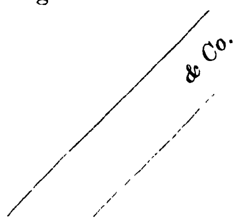
An additional safeguard can be employed when drawing a cheque by adding to it what is known as a "**Crossing.**"

This practice originated many years ago with the London Clearing House, and was subsequently declared to be of legal validity, and has now become almost universal. If a cheque bears across its face an addition of two parallel transverse lines, with or without the words "and Company," or any abbreviation thereof, it will not be paid by the banker upon whom it is drawn, unless it is presented for payment by a banker, and if the name of a particular banker is inserted between the two parallel lines, the cheque will not be paid to anyone except that particular banker, or to the banker who acts as his clearing agent.

The effect of this proviso is that a "crossed" cheque, in which the name of a particular banker has not been inserted in the crossing, can only be converted into money by a person who possesses an account with a banker, and that a crossed cheque in which the name of a particular bank is inserted can only be cashed by being placed to the credit of the account of a customer of that named banker. A crossed cheque would not be paid over his counter by the banker upon whom it is drawn, even though it were presented for payment by the person in whose favour it was drawn. These provisions obviously render a crossed cheque more difficult of encashment by

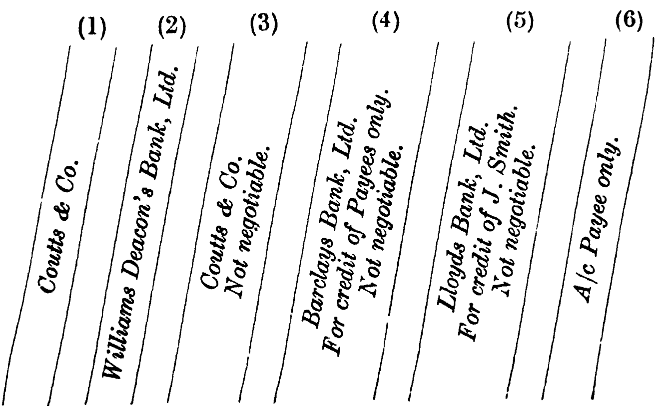
a person obtaining wrongful possession of it than is the case with a cheque which is not "crossed" (called an "**Open Cheque**"). The custom of paying accounts by means of crossed cheques transmitted through the post has become well-nigh universal now-a-days among traders, and the "crossing" upon such cheques, restricting their usefulness to those members of the community who possess banking accounts, has tended to encourage the rapid growth of this custom.

The form of crossing upon a cheque, in cases where it is not "crossed" to any particular banker, is as under. But the words "& Co." or "and Company" may be omitted, since the two parallel tranverse lines constitute in themselves a "crossing"



The above form of crossing is referred to as a "**general crossing.**"

Other forms of "crossings" which will be found in common use are as illustrated hereunder—



Form 1 is the simple form of a **"special crossing,"** which restricts the cheque from being cashed except through the particular banker whose name is written in the crossing.

Form 2 is a similar crossing wherein the name of a Joint Stock Banking Company is inserted.

Form 3 is a form of "special" crossing containing, in addition to the banker's name, the words "not negotiable."

A cheque is a specialised form of bill of exchange, and like all bills of exchange, and promissory notes, and bank-notes (which are a specialised form of promissory note), is a **"negotiable instrument."** A "negotiable instrument" is one which, if taken by any person in good faith, and in exchange for value, becomes the property of the taker, and can be enforced by him, as regards the payment of it at its due date, notwithstanding any defects of title to the document which may attach to the person from whom it was taken.

For example, if a person, in good faith and for value, acquires from anyone who has stolen it, a cheque drawn by a third party, the third party cannot refuse to honour the cheque on the ground that it has been stolen. The fact that the holder of the cheque in question has received it not knowing that it was stolen property, and has given value for it, places him in an indisputable position legally to enforce the payment of it. A negotiable instrument may thus become analogous to coin of the realm; and, in point of fact, the employment of cheques in making money payments has, to a very large extent, taken the place of the use of coin in commercial transactions.

This "negotiability," although most valuable in the case of other bills of exchange, is a somewhat inconvenient characteristic from the point of view of the drawer of a cheque in the event of the cheque failing to reach the hands of the person for whom it was destined. The drawer of a cheque which is "negotiable" may be forced to pay it, when it is in the hands of a third party, if it should have been stolen in course of transit, and the person who has stolen it sells it to such third party, and the third party takes it in good faith not knowing that it has been stolen, and gives value for it. And, in addition to paying the third party, the drawer of the cheque will still be in the position of not having discharged

his obligation to the person to whom the cheque was originally drawn and destined.

In order to meet this objection it is legally permissible to add to the crossing of a cheque the words "not negotiable." The addition of these words does not actually make a cheque not *transferable* from one party to another, but the words have the effect of preventing the holder from passing on a better title to the document than he has himself; and, generally, they subject a crossed cheque (with these words added to the crossing) to the ordinary provisions of the law regarding property, viz. that a purchaser cannot acquire any better title to property than was possessed by the vendor of it.

If a crossed cheque so marked "not negotiable" be stolen, the taint of theft attaches to it, and prevents any successive holder of it from acquiring any better title to the document than was possessed by the thief himself, and a person who steals property obviously acquires no legal ownership to it at all.

The drawer of a cheque who crosses it, and adds to the crossing the words "not negotiable," can thus refuse to honour it if it is stolen, whereas the drawer of a crossed cheque who does not add these words to the crossing, while he can refuse to pay any holder who took it either *mala fide* or without value, must nevertheless pay an honest "holder for value."

Bills of exchange and promissory notes, together with certain other sorts of commercial documents * (*e.g.* Bonds payable to Bearer, Dock Warrants, etc.) are also "negotiable instruments"; the above-mentioned provisions as to the use of the words "not negotiable" in their protective sense apply, however, only to crossed cheques. Negotiable instruments of other classes cannot be deprived of their negotiable characteristics by the addition of any such words, nor, seeing that these analogous documents are far less easy of prompt conversion into money, does there appear to be any urgent need for such qualifying conditions.

Forms 4 *and* 5 are examples of "not negotiable" crossings wherein a direction is added as to the particular account to which the cheque is to be credited by the

* Bills of Lading, drawn "to order" are, if endorsed, in blank, transferable by simple delivery; they do not, however, possess the other characteristics of negotiable instruments, and therefore are not *fully* negotiable.

collecting banker, *e.g.* "for credit of payees only," or "for credit of J. Smith."

The words "a/c Payee," or "Payee's a/c only," or "Account A. B.," "for credit of A. B." etc., are very commonly added to the crossing of a cheque. These words, unlike the words "not negotiable," have no statutory authority. They in no way affect the *negotiability* of a cheque. They are in the nature of a direction to the banker collecting the cheque, and if he were to place the proceeds of the cheque to an account other than that of the specified payee, he might be liable to the payee for the amount of the cheque. An uncrossed cheque bearing such words, presented for payment over the counter, is an embarrassing document, and the banker would be justified in refusing payment on the ground that the form of the cheque was irregular. Similarly, if the cheque were crossed, and it bore evidence that it had been negotiated by the named payee, the paying banker would be entitled to return the cheque on the ground that the crossing was irregular, and required the drawer's authority to pay.

Form 6.—This is a crossing much in use in paying private personal accounts, in cases where the name of the payee's banker is unknown.

Cheques are usually drawn upon the special printed forms supplied in books by bankers to customers keeping accounts with them; they must bear a twopenny stamp, and books of cheque forms are supplied already stamped, the cost of such stamps being debited to the customer. Legally, cheques may be drawn upon any piece of paper, and need not necessarily be upon the special forms supplied by the banks, but the latter wisely discountenance the use of any forms other than those supplied by themselves. In the case of a cheque so drawn on an ordinary plain piece of paper the inland revenue stamp need not be impressed as is the case where the bank's own forms are purchased by the customer ready stamped; an ordinary twopenny "postage and inland revenue" stamp is sufficient if cancelled by the drawer at the time of signing the cheque.

Of late years a custom has arisen, in the case of many large mercantile firms, of printing on their cheque forms a form of receipt to be signed at the foot by the person in whose favour the cheque is drawn; the cheque, when returned by the bank to the drawer after payment, thus

becomes a convenient form of receipt, and contains the full history of the payment made. The cheque employed in such cases usually takes the following form (but see below):—

No......... *London*.................... 19...

STAMP 2*d*.

To BARCLAYS BANK, LTD.

Pay to the order of ....

the sum of...subject to the receipt at the foot hereof being duly signed.

(Signature of drawer)......................................

£....................

Form of Receipt.

Received the above-mentioned sum of....................

(Signature of payee)

.... STAMP .....

Dated this.................19—

Additional space is sometimes supplied to allow the entry of brief particulars of the purpose for which the money was paid, *e.g.* "for goods supplied."

The order to the banker to pay must be unconditional, otherwise the instrument is not a cheque. The payment of the cheque illustrated is conditional upon the receipt form being signed, and, in such cases, the banker usually takes an indemnity from such of his customers as employ this, or similar forms of document in making payments. The payee's endorsement of a cheque payable to his order is a receipt for the money, when the debt, the cheque, and the indorsement are identified.

Bankers "stop," *i.e.* refuse, payment of cheques drawn upon them in the following circumstances—

(1) Knowledge of Bankruptcy or an "act of Bankruptcy" on the part of the drawer.
(2) Notice of the drawer's death.
(3) Receipt of "garnishee order," *i.e.* an order from a court of law, obtained by one of the customer's creditors, placing a legal encumbrance on the customer's bank balance.

(4) Notice from the drawer instructing the banker to stop payment of the cheque.
(5) Want of funds, *i.e.* an insufficient balance to the customer's credit.
(6) Cheque "out of order," *i.e.* when incorrectly drawn or containing some informality.

Cheques, the payment of which has been refused, are marked by bankers, in accord with the circumstances, as follows—

I/F (Insufficient Funds).
R/D (Refer to Drawer).
N/S (Not Sufficient Funds).
"Not in order."
"Figures and writing disagree."
"No effects" (insufficient balance).
"Effects not cleared."
"Account closed."
"Drawer dead," etc., etc.

Generally speaking, the best answer that a banker can return where a cheque is drawn on a depleted account is "R/D." The markings "I/F," "N/S," "No effects." "Effects not cleared," may, in circumstances, convey too much meaning. In cases of irregularity, the banker's duty is to indicate it, *e.g.* "Words and figures disagree," "Account closed," "Drawer dead," etc. The Council of the Institute of Bankers advises that answers should be written in full, not abbreviated.

Bills of Exchange

The modern bill of exchange is a versatile instrument of credit, the general nature and principal uses of which have been broadly outlined in Chap. II; there remain to be explained, in more detail, some of the most common forms and varieties in which these documents are met with.

A bill of exchange is legally defined "as an unconditional order in writing addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand or at a fixed or determinable future time a sum certain in money to, or to the order of, a specified person or to bearer."

A cheque comes, as will be seen, within this definition, and cheques therefore rank legally as bills of exchange drawn on a banker payable on demand.

The multitude of legal decisions affecting bills of

exchange were codified by the *Bills of Exchange Act*, 1882, which with the *Bills of Exchange (Crossed Cheques) Act*, 1906, and the *Bills of Exchange (Time of Noting) Act*, 1917, now embody the law regarding bills of exchange.

As has been previously explained, the person to whom a bill of exchange is addressed (the "Drawee") signifies his promise to pay the bill at maturity by writing his name across the face of the bill, adding, in many cases, the word "accepted," and frequently indicating a particular bank or other place where the bill is to be presented when it falls due, and where it will be paid upon presentation. The signature of the drawee alone matters, and the word "accepted" may be omitted. Where the drawee in accepting a bill does not add that the bill is payable by a certain named banker, it is understood to be payable by the drawee at his business office, or his private address. The place where a bill is made payable is known as its "domicile." If the drawee of the bill (who by thus undertaking to pay it becomes the "Acceptor") indicates, as he usually does, his own bank as the place where the bill is to be payable, such form of acceptance operates as an authority to his banker to pay the bill on his behalf when it falls due, and to charge him (the customer) with the amount so disbursed. It operates as an authority to the banker to pay the bill where there is an understanding between the customer and his banker to pay the customer's acceptances; but in the absence of such authority, the customer must advise the banker to pay a bill that he has accepted and "domiciled" with him.

Bills of exchange are commonly drawn "to the order of" the drawer, or some other party named by the drawer. The employment of the words "to the order of" involves the "endorsement" of the bill by the "payee," just as was explained to be the case with reference to a cheque when drawn "to order." An endorser may, if he so desires, indicate, when endorsing the bill, the name of a person to whom he wishes payment to be made, and this direction in turn, if made to that person's "order," necessitates the endorsement of the bill by that person. This process of "endorsing over" a bill of exchange from one payee to another is very prevalent in commerce, especially in the case of foreign bills. Not uncommonly, the successive endorsements on a foreign bill occupy the whole of the

back of the bill as well as a further slip of paper (called an "**Allonge**") which has to be gummed to the bill in order to accommodate further endorsements. It must be remembered that the drawer and all the successive endorsers are each of them liable to pay the full amount of the bill if it should be dishonoured by the acceptor at maturity. A good bill of exchange containing the signatures, in one capacity or another, of several firms of established reputation furnishes a triple, quadruple, or even greater combination of guarantors for the payment of the amount of the bill at maturity. The favour with which bankers regard good bills as a convenient form of temporary liquid investment is thus easily understood. It will also be obvious to the student that the bill of exchange offers a simple and efficacious device for financing commercial transactions, the acceptor of the bill frequently having the opportunity of selling the goods against which the bill is drawn before he has to provide for the payment of it.

An Inland bill of exchange is a bill both drawn and payable within the British Islands, or drawn within the British Islands upon some person resident therein. By "British Islands" is meant, the United Kingdom, Northern Ireland, the isles of Man, Guernsey, Jersey, Alderney and Sark and the islands adjacent to them forming part of His Majesty's Dominions. The ordinary form of an "**Inland**" bill of exchange is given on page 218.

This bill would fall due on November 30, 1931 (allowing for the three "days of grace"), and would need endorsement by Messrs. Heywood & Platts.

The circumstances out of which such a bill might be assumed to arise would be that Mr. John Harman, having, as the result of some transaction, become the debtor of Messrs. Heywood & Platts, the latter have "drawn upon" him for the amount due by means of a bill as illustrated. In due course Mr. John Harman will "accept" the bill by writing his signature across it.

On maturity, the bill will be presented by the holder of it (through the bankers of such holder) wherever it has been made payable by the drawee. If the acceptor has made the acceptance payable at his bankers, but on its maturity has not sufficient funds with the latter to meet the bill, they will refuse to pay it, and the bill will consequently be returned "**dishonoured**" to the holder.

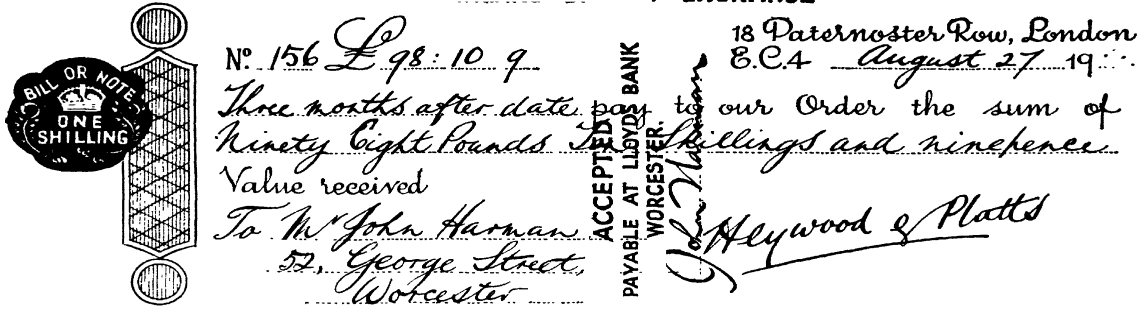
Before being returned, it will be handed, in the absence of instructions to incur no charges, by the collecting banker to a Notary Public, in order that the latter may himself re-present the bill to the bank where the acceptor has domiciled it, or to the acceptor himself at his address in the absence of a domicile, and may formally record the fact of its having been dishonoured. The Notary Public, in such a case, attaches a small gummed ticket to the bill, containing his name, a note of his charges (usually a few shillings) for "**noting**" non-payment, together with the reason given for such non-payment upon presentation of the bill. If subsequently desired, the Notary is then, after the above formalities, in a position to draw up a formal document, a "**Protest,**" setting forth that the bill has not been met at maturity. In the case of an inland bill, the extra expense entailed by this procedure is very seldom deemed necessary, except in cases where legal action to enforce the bill is contemplated. "**Foreign**" bills (*i.e.* bills drawn or payable abroad) are almost invariably "protested" as well as "noted," as the formal protest is legally necessary in the case of foreign bills.

Upon the dishonour of a bill, the holder can call upon the drawer or any of the endorsers to pay it, but any person liable by reason of his signature appearing on the bill can, if he honours it himself, recover the money from any of the other persons liable on the bill previously to himself, *e.g.* an endorser honouring a bill can recover the money from any other endorser whose signature appears upon the bill prior to his own, or from the drawer of the bill, or from the acceptor himself. Similarly the drawer, if called upon to pay the bill, can recover from the acceptor. The holder of a dishonoured bill must, *immediately* upon its dishonour, give notice of the fact of such dishonour to all persons liable upon the bill (except the acceptor) as otherwise they may become legally relieved from liability to pay the bill.

The charges for noting must be paid by the holder of a dishonoured bill to his banker in the first instance, but these, together with the amount of the bill itself, can be thereafter recovered from the persons liable on it.

A dishonoured bill is frequently "**renewed,**" in whole or in part, *i.e.* a fresh bill for the amount agreed upon is given between the original parties. This fresh bill ranks, however, for book-keeping purposes, as a new transaction.

F EXCHANGE



BILL OR NOTE ONE SHILLING

18 Paternoster Row, London
E.C.4 August 27 19

No. 156 £98:10:9

Three months after date pay to our Order the sum of Ninety Eight Pounds Ten Shillings and ninepence

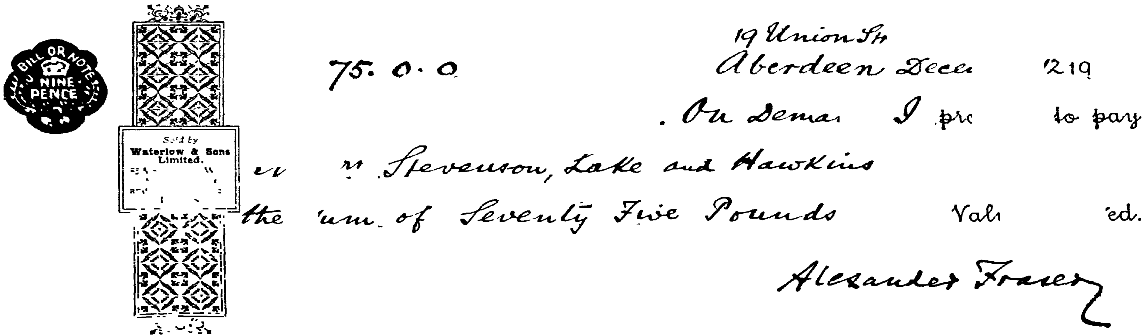
Value received

To Mr John Harman
52, George Street,
Worcester

ACCEPTED
PAYABLE AT LLOYDS BANK
WORCESTER.

Heywood & Platts

PROMISSORY



BILL OR NOTE NINE PENCE

Sold by Waterlow & Sons Limited.

19 Union St
Aberdeen Dece 219

75. 0. 0

. On Dema I pr to pay
er rs Stevenson, Lake and Hawkins
the um of Seventy Five Pounds Val ed.

Alexander Fraser

FOREIGN BILL OF EXCHANGE IN A SET.

BILL OR NOTE TWO SHILLINGS

No. 1876 £149. 10. 0 London D. 24/

Sixty days after sight pay this First of Exchange (Second and Third of the same tenor and date unpaid) to the order of The Bank of India, Limited the sum of One Hundred and Forty Nine Pounds Ten Shillings Sterling payable at The Bank of India's drawing rate for demand Drafts on London with interest at Six per cent. per annum added thereto from date hereof to approxim . . . . arrival of the remittance in London: value received.

To Messrs. Fox, Muirhead & Co.,
86 College Street,

Heywood & Platts.

No. 1876 £149. 10. 0 London, Dec. 24 19..

Sixty days after sight pay this Second of Exchange (First and Third of the same tenor and date unpaid) to the order of The Bank of India, Limited the sum of One Hundred and Forty Nine Pounds Ten Shillings Sterling payable at The Bank of India's drawing rate for demand Drafts on London with interest at Six per cent. per annum added thereto from date hereof to approximate due date of arrival of the remittance in London: value received.

To Messrs. Fox, Muirhead & Co.,
86 College Street,
Calcutta.

Heywood & Platts.

No. 1876 £149. 10. 0 London, Dec. 24 19..

Sixty days after sight pay this Third of Exchange (First and Second of the same tenor and date unpaid) to the order of The Bank of India, Limited the sum of One Hundred and Forty Nine Pounds Ten Shillings Sterling payable at The Bank of India's drawing rate for demand Drafts on London with interest at Six per cent. per annum added thereto from date hereof to approximate due date of arrival of the remittance in London: value received.

To Messrs. Fox, Muirhead & Co.,
86 College Street,
Calcutta.

Heywood & Platts.

A Foreign bill of exchange is any bill of exchange that does not come within the definition of an Inland bill of exchange given on page 216. An Inland bill is usually drawn *sola*, on one piece of paper only, but a Foreign bill is usually drawn in a set of two, or three.

Foreign bills, *i.e.* bills drawn in one country but payable in another, resemble Inland bills in their main characteristics. Foreign bills, *e.g.* bills drawn by a Japanese merchant upon a merchant in London, are frequently discounted by the drawers with foreign banks directly after they have been drawn and before they have been accepted, the banks relying in these cases upon the reputation of the drawer, and upon his ability to pay the bill if it is subsequently returned to them unpaid. Such bills are transmitted by the foreign banks to their banking correspondents in this country for presentation on their behalf to the British firms upon whom they are drawn. If, when such a bill reaches London for acceptance, the person upon whom it is drawn refuses to accept it, the same consequences ensue as if the bill had been dishonoured at maturity, *i.e.* the drawer, upon the bill being noted and protested for non-acceptance, becomes immediately liable to pay it, and the endorsers (if any there be) also become liable to honour it, notwithstanding the fact that its due date for payment has not yet arrived.

Foreign bills are frequently drawn in duplicate, or even in triplicate, the separate parts being forwarded by different mails. This precaution is taken so that, if the part first forwarded is lost in transit, the second or third of the set will be available. The practice of drawing Foreign bills in sets is not so prevalent as in former years. The regularity and reliability of the modern postal services have rendered such precautionary measures less necessary than they were. Still, bills drawn upon Continental buyers are commonly drawn in duplicate, and bills upon buyers situated in remoter countries in triplicate. In cases where a bill is drawn in a set the drawee will only "accept" one of the set of bills, and is, of course, only liable upon the one he accepts. One part only of a set of bills is stamped, and the two or the three parts comprising the set constitute but a single bill, except when the parts are separately accepted or negotiated and come into the hands of a holder in due course.

When a foreign merchant sells goods to a buyer in

this country, or a British merchant sells goods to a foreign buyer, he very frequently draws, and sells to his local banker, a bill of exchange drawn upon the buyer, payable after a stated period of time, such bill being drawn, in many cases, for the full invoice price of the goods, and, in other cases, for a portion only of the invoice price. In order to render the bill acceptable to the bank to which it is presented for purchase, the drawer attaches to the bill the "bills of lading," and the invoice in duplicate or triplicate representing the goods shipped. He also attaches the Marine Insurance Policy covering the risk of loss or damage to the goods shipped. The "**Bills of lading**" are the "**Documents of Title,**" conferring the right to the ownership of the goods mentioned therein upon the person to whom they are made out, or that person's "assigns." In so receiving the bill, "**with documents attached,**" the bank also secures the right to deal with the goods against which the bill has been drawn, and thus a valuable and tangible security, in addition to the drawer's personal responsibility, is obtained by the banker when dealing with bills of this class. If the bill is dishonoured by non-acceptance, the collecting agent of the banker who purchases the bill can at once sell the goods, and any deficit between the proceeds of sale of the goods plus expenses, and the amount of the bill can be recovered from the drawer of the bill. The right to sell the goods is conferred upon the banker who purchases the bill by a document known as a **Letter of Hypothecation,** which the shipper of the goods (and drawer of the bill) signs and hands to the banker.

Such bills are termed "**Documentary bills,**" and a very considerable part of the settlements for goods imported into, or exported from, this country is effected in this way. Where the drawee of such a documentary bill is of established reputation, the bank holding the bill will frequently surrender to him the bills of lading (*i.e.* release to him the goods previously held as security against the bill) on receiving back the bill duly accepted; if, however, the drawee is not considered to be financially strong, the banker holding the bill will retain both the bill (when accepted) and the goods, releasing to the drawee portions of the latter in exchange for cash, as and when received, or permitting the drawee to redeem the bill in cash (and obtain the goods) at any time before

its actual due date, subject to an allowance to him of interest on such prepayments. Or the banker may take from the drawee a document known as a "**Trust Receipt,**" under which the goods are released to the drawee *on his undertaking to hold them in trust for* the banker, and to pay to the banker the proceeds of sale of the goods sufficient to discharge the amount of the bill.

The payment of a bill before it is legally due is styled "**taking up a bill under rebate,**" and the allowance of interest upon such prepayments is termed "**Rebate.**"

A form of foreign bill drawn in triplicate is given on page 219.

The period of time that must elapse before a bill falls due for payment is termed its "**Tenor,**" and the following are some of the principal tenors employed—

"**On Demand**" means that the bill is to be paid immediately on presentation to the drawee, without the usual days of grace.

"**At Sight**" and "**On Presentation**" have the same significance as "on demand."

"**Three Months After Date**" means that the bill becomes due three months after the date appearing upon it, subject to the allowance (if the bill is payable in this country) of the three "days of grace," as already explained (page 30).

"**At Sixty Days' Sight,**" or "**Sixty Days After Sight,**" means that the bill is payable sixty days after it has been presented to the drawee for acceptance, or sixty-three days, if the bill is payable in this country.

Certain definite periods of time were formerly recognised as the customary tenor for bills drawn between one country and another. This customary period of time was termed "**Usance.**" The usance current between any two countries depended, of course, upon the nature of the transactions between their respective merchants, upon the average time necessary to transmit goods and letters, and upon other similar circumstances. The practice of drawing bills at "usance" is now, practically, obsolete.

Two types of bill which, although not uncommon, are not popular in financial circles are—(1) "**Accommodation Bills**" (familiarly known as "Kites"), and (2)

"House Bills" (picturesquely described as "pig on pork"). The former bills are merely expedients for obtaining loans, and are drawn for the accommodation of one or other, or both, of the parties thereto, and do not represent any genuine "value received." The latter are bills drawn by a firm, or limited company, on itself as between different branches or agencies. Both these forms of bill are drawn solely for the purpose of being discounted by one or other of the parties thereto in order to obtain the use of the resulting proceeds. They illustrate the dangers arising from instruments of credit when created apart from genuine trade, and since, in themselves, they are devoid of real security, bankers decline to discount such bills.

The *ad valorem* stamp duty payable on bills of exchange is as follows—When the amount due

Does not exceed £5, the stamp required is					.	2*d*.
Exceeds	£5 and does not exceed			£10	.	2*d*.
,,	£10	,,	,, ,,	£25	.	3*d*.
,,	£25	,,	,, ,,	£50	.	6*d*.
,,	£50	,,	,, ,,	£75	.	9*d*.
,,	£75	,,	,, ,,	£100	.	1*s*.

and 1*s*. for every £100 and every fractional part of £100 when the bill exceeds £100.

Bills of any amount payable "At sight," "On demand," "On presentation," or within "three days after date or sight," need only a twopenny stamp.

If the bill covers interest as well as principal, the stamp need only cover the latter, unless the actual amount of the interest is included in the amount of the bill, in which case a stamp to cover the full amount must be affixed.

Promissory Notes

One other form of "negotiable instrument" which is to be met with in commercial practice requires brief mention, viz. the Promissory Note.

A form of promissory note is given on page 218, and its nature can, to a large extent, be gathered from the wording employed in the document itself.

A promissory note. drawn as above, is a "negotiable instrument," and legal title to it can be acquired by a purchaser in good faith and for value, just as is the case with a bill of exchange.

A promissory note that is made payable "to order" (as above) requires endorsement in the usual manner by the person to whom it is expressed to be payable. Promissory notes are not usually drawn "to bearer" except in the case of bank-notes; a bank-note is, in its legal aspect, a promissory note payable to bearer on demand issued by a bank, and as it is payable "to bearer," it does not, of course, need an endorsement.

The legal position of all parties whose names appear on a promissory note, as regards their liability to pay it to a third person holding it in good faith and for value, corresponds with the position of the like parties in the case of a bill of exchange. The "maker" of the promissory note corresponds with the "acceptor" of a bill of exchange, the "payee" of a promissory note with the "payee" of a bill, and so forth. The rules set out above as to "dishonour," "noting," and "protest" apply also to promissory notes.

The employment of promissory notes is common amongst the money-lending fraternity, but their use in commerce is in this country restricted, and such documents are rarely used in the payment of commercial obligations. Very commonly the amount covered by a promissory note is payable by instalments, upon each of which three days of grace are allowed.

Promissory notes, like bills of exchange, require an *ad valorem* stamp based upon the amount of the note. There is one difference, however, between the rates of duty payable, viz. a bill of exchange payable "on demand" requires a twopenny stamp whatever be the sum payable, whereas a promissory note, payable on demand, requires to be impressed with a stamp based upon the sum for which the note is created.

EXERCISES

12A.

CHEQUES.

1. Define a cheque.
2. Explain why payment by cheque has attained so great a vogue in this country. Contrast the advantages of a cheque as compared with those of a bank-note.
3. What is the difference between a cheque drawn "to order" and one drawn "to bearer"?
4. Give a form of cheque drawn by V. Montgomery on the United Banking Company of Great Britain, Ltd., London, for

£1,046 19*s.* 4*d.* dated May 1, 19—, payable to the order of H. Miles.

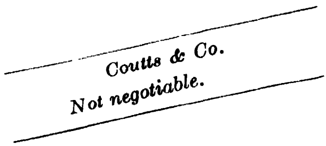
5. What is a negotiable instrument? Contrast the position of a person who has issued a document undertaking to pay a sum of money to a specified person—(1) when this document is a negotiable instrument, (2) when the document is not a negotiable instrument, assuming in each case that the document in question has been duly endorsed and has been subsequently stolen.

6. Mention five different types of negotiable instruments.

7. Is a cheque drawn to the order of J. Jones and endorsed by the latter a negotiable instrument? Is a "Bearer" cheque a negotiable instrument?

8. Explain the general form and uses of a "Crossed Cheque."

9. What difference exists as regards the legal effect between a cheque crossed "Coutts & Co." and a similar cheque crossed

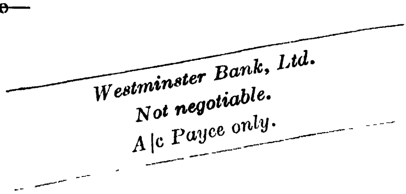


10. Does the fact that the words "not negotiable" appear on a cheque absolutely forbid its being transferred by one person to another? To what extent do these words effect transfers of cheques between persons?

12B.

CHEQUES.

1. Explain the legal effect of the following crossing appearing on a cheque—



2. What stamp is necessary upon a cheque? Is an impressed stamp obligatory?

3. What legal steps must be immediately taken by the holder of a cheque that is dishonoured?

4. Explain the following terms written by bankers, upon occasion, on cheques presented to them—

"R/D"; "N/S"; "Account closed."

5. Explain the following terms—

"Effects not cleared"; "Words and figures differ."

6. Upon the happening of what events may a Banker upon whom it is drawn refuse to honour a cheque although sufficient money to pay it is standing to the credit of his customer's account?

7. Explain to what extent a cheque and a bill of exchange possess the same characteristics, and to what extent they differ in form and use.

8. Is it possible to "cross" a bill of exchange or a promissory note?

9. Is it necessary that cheques should invariably be drawn upon the engraved forms supplied by each bank to its customers?

10. Give a form of cheque which includes a form of receipt to be signed at the foot by the payee of the cheque. Briefly discuss the advantages of cheques of this type.

12c

Bills of Exchange.

1. Define a bill of exchange.

2. Explain briefly why bills of exchange are used to so large an extent in the settlement of commercial transactions, stating the benefits obtained by the drawer and the drawee when using this method of discharging the obligations between them.

3. Give a form of a bill of exchange for £120 drawn by J. Jones & Co. of Swansea upon R. Harris of London, accepted by the latter payable at the Bank of England, London.

4. What formalities have to be gone through in the case of dishonour—(1) of an inland bill, (2) of a foreign bill drawn upon a merchant in this country?

5. Explain the liability—(1) of an acceptor of a bill, (2) of the drawer, (3) of the endorsers. Compare the positions of these persons as regards liability upon the bill.

6. What is meant by a "documentary" bill? Why is it frequently easier to discount a documentary bill with a banker than it is to discount a similar bill without "documents attached"?

7. Wilson & Co. of Calcutta on May 1, 19—, sell and ship to Brown Brothers of London by s.s. *Hoogly* a quantity of jute for £1,000. Against this shipment they draw a bill upon Brown Brothers at three months' date for £900, "with documents attached" in favour of the National Bank of India, and discount the bill with the National Bank of India, Calcutta, for £885. Explain the nature of this transaction, give the form of the bill, and show the entries (in pounds sterling) requisite to correctly record the matter in Wilson & Co.'s books.

8. Show the entries requisite to record in Brown Brothers' books the various transactions set forth in Question 7, including payment of the bill at maturity.

9. Explain the functions of a "Notary" so far as they relate to bills of exchange.

10. What is meant by the terms "usance" and "tenor" as applied to bills of exchange? Explain the following terms used in connection with bills of exchange—

"At sight,"
"On demand,"
"Sixty days after sight,"
"Three months after date,"

What are "days of grace"?

12D.

BILLS OF EXCHANGE AND PROMISSORY NOTES.

1. What stamp duty is payable upon inland bills of exchange drawn for the following sums—

£75; £100; £100 15*s*.; £2,000; £3,461 19*s*. 2*d*.?

May "postage and inland revenue stamps" be used for these bills?

2. What stamp duty is payable upon the following—

(1) A bill of exchange for £1,000 drawn payable "on demand."

(2) A promissory note for £1,000 made payable "on demand"?

3. What is a "promissory note"?

4. Give a form of promissory note for £500 signed by Owen Meredith, payable three months after date, dated June 1, 19—, to the order of Rhys Brothers.

5. Compare (1) the characteristics and (2) the modern commercial use of promissory notes and bills of exchange.

6. Is a promissory note a negotiable instrument? Is a bill of exchange a negotiable instrument? To what extent do the respective liabilities of the various parties to a bill of exchange compare with their liabilities if a promissory note had been used in the place of a bill of exchange?

7. Define a "bank-note." Does a Bank of England note require an endorsement?

8. Upon a bill of exchange being dishonoured by the acceptor, and being paid by the last endorser to the holder of the bill, what remedies has such last endorser against the other persons whose names appear on the bill?

9. Define "Accommodation Bills" and "House Bills," and explain the circumstances out of which they usually arise. Are such bills regarded by bankers with the same degree of favour as other bills of exchange?

10. Why are good bills of exchange regarded with such favour as temporary investments by the banks discounting them? Upon what circumstances does the banker fix the rate of discount at which he will discount bills offered to him by a customer?

CHAPTER XIII

SINGLE ENTRY BOOK-KEEPING

The author desires the student clearly to understand that this chapter is not devoted to Single Entry Book-Keeping for the purpose of teaching him how to keep books in that way. Indeed, the purpose of this treatise will have altogether failed should any reader of it base his book-keeping on the Single Entry principle. The only reason for allotting space to the subject is the unfortunate fact that this system, or want of system, is still employed in small businesses and, therefore, the competent book-keeper must know how to remedy its shortcomings when he encounters it either in practice or in examination work.

The requirements of an efficient system of book-keeping have already been explained. The only system which satisfies these requirements is the Double Entry system.

It is difficult to explain a system of book-keeping which formulates no fixed rules or underlying theory. Its chief characteristic is, perhaps, that it fails to deal with the twofold aspect of every transaction, which is the fundamental basis of the Double Entry system. Briefly stated, Single Entry book-keeping is defective book-keeping, and the term practically embraces all methods other than the Double Entry method.

Pure "Single Entry" book-keeping scarcely exists in practice, the system usually met with under that name being a compound of Single and Double Entry. The former system deals only with accounts having a personal aspect, and in pure Single Entry book-keeping the only book kept would be a Ledger containing personal accounts opened for the parties with whom the trader deals; such a Ledger would, as regards form, correspond with the ordinary Personal Ledger as used in Double

Entry book-keeping. Only one entry, *i.e.* the one necessary in the personal account of the party dealt with, would be made upon the occurrence of each transaction.

It will be obvious that, in the majority of businesses using Single Entry methods, this personal Ledger would not suffice even for the barest necessities of a small business; an infusion of Double Entry methods, albeit a partial one, is therefore added to the Single Entry system pure and simple. A Cash Book, kept as in Double Entry, is an indispensable necessity, and it is, therefore, included in this composite Single Entry system, although methodical posting from the Cash Book to the Ledger does not take place in every instance.

A personal Ledger is kept, as in pure theoretical Single Entry. Entries in the Cash Book referring to personal accounts (*i.e.* moneys received from debtors and paid to creditors) are posted from the Cash Book to the accounts in the personal Ledger just as is the case in Double Entry book-keeping. Cash Book entries relating to accounts other than personal ones (*e.g.* those relating to nominal accounts such as "Machinery," "Salaries," etc.) are not posted to any Ledger accounts. No "nominal" accounts whatever are kept with the exception of the Cash Book, nor, with the exception of the debtors, are any accounts kept to record the assets owned by or used in the business.

Purchases Books and Sales Books are practical necessities for any business which conducts any part of its operations upon credit, and these books are generally included in the composite Single Entry system, or the sales are posted direct from the invoices; the purchases and sales effected are posted to the credit or debit of the relative creditor's or debtor's personal accounts in the Ledger; but the Purchases and Sales Books are rarely added up, and even in cases where the additions have been made, the totals arrived at are not posted anywhere nor made use of in any practical way. If discounts are received, or allowed, they are entered direct in the personal Ledger accounts, no other record being kept. In short, in all these cases, it is only the *personal* aspect of the transaction which is posted.

The student will have noted that the composite so-called Single Entry system thus illustrated provides

the following information only with regard to the active working of the undertaking—

1. A record of Cash Receipts and Payments (Cash Book).
2. A record of dealings with persons (Ledger).
3. Records of goods bought and sold on credit (Purchases Book and Sales Book).

These records, however, are not linked together into one system, and the whole method is disjointed and incomplete.

The trading results attained by any business in which the books are kept by Single Entry can only be arrived at by the crude process of comparing the trader's *present net worth* with his financial position as at some previous given date; the difference between the two " net worths " representing the net gain or the net loss on trading over the selected period, according as the present " net worth " exceeds the previous " net worth " or falls short of it. The trader's " net worth," or " Capital," at any given date is arrived at by preparing a so-called Balance Sheet or, more correctly speaking, a " Statement of Affairs." For this purpose the trader's books are employed as far as they go (*i.e.* for cash, debtors and creditors), and the trader's memory, or any memoranda he may possess, must be relied upon for particulars of the remainder of his Assets (*e.g.* land, buildings, machinery, etc.). It will be obvious that in cases where financial statements are prepared upon such inchoate information there is a considerable risk of error, and the omission of various material items through forgetfulness is probable. If, in either of the two statements used, for the purpose of comparison, there is any inaccuracy, the Profit (or Loss) figure arrived at by means of the comparison of the two capitals shown in them is *pro tanto* incorrect. The unscientific nature and inherent weakness of this method of preparing Profit and Loss statements is thus evident. There exists also in this procedure a further serious defect, which is, however, unavoidable, in that the amount of the Profit or Loss is necessarily arrived at as a single net figure, affording no detailed information whatever as to how the trading result has arisen, and giving no useful details as to the various expenses incurred in carrying on the business; the source of the increase or decrease in the Profit or

Loss for the period therefore cannot be ascertained. It is needless to point out that, for practical commercial purposes, statements prepared in this manner are immeasurably inferior as compared with the complete and detailed information afforded by Trading and Profit and Loss Accounts compiled under Double Entry methods.

In Single Entry, owing to the fact that two statements are needed in order to ascertain the trading result (viz. one at the beginning of the period and one at the end), error is certain if the former of the two statements has not been properly prepared; in such cases it becomes necessary for the trader to endeavour to estimate, after a considerable lapse of time, his financial position at the previous given date. It is needless further to emphasise the fact that trading results arrived at upon such a basis cannot, in any circumstances, be reliable.

By way of illustration two Statements are set out below, showing the method of arriving at the profits made by John Smith, whose books are kept by Single Entry, for the year ended December 31, 19— (2nd year).

JOHN SMITH.

STATEMENT OF AFFAIRS, December 31 (1st Year)

LIABILITIES.	£	s.	d.	ASSETS.	£	s.	d.
Sundry Creditors ...	950	0	0	Machinery and Plant	520	0	0
Balance (capital) ...	655	0	0	Office Furniture... .	50	0	0
				Stock on hand ...	310	0	0
				Sundry Debtors .	410	0	0
				Cash at Bank	315	0	0
	£1,605	0	0		£1,605	0	0

During the following year J. Smith drew out of the business, on private account, £250, and at the close of the second year his position was found to be as follows—

JOHN SMITH.

STATEMENT OF AFFAIRS, December 31 (2nd Year)

LIABILITIES.	£	s.	d.	ASSETS.	£	s.	d.
Sundry Creditors ...	820	0	0	Machinery and Plant	610	0	0
Balance (capital) ...	1,199	0	0	Office Furniture......	45	0	0
				Stock on hand	440	0	0
				Sundry Debtors ...	614	0	0
				Cash at Bank	310	0	0
	£2,019	0	0		£2,019	0	0

The increase in the "Balance," or Capital, at the close of the second year, as compared with the previous year, is £544. In order to obtain a true figure of profit the £250 drawn out of the business on private account during the year must be added to this increased "Balance," as this sum, had it been left in the business, would have increased the Assets to this extent. In this way we get at the Profit figure for the second year viz. £544 + £250, *i.e.* £794.

That this is an unsatisfactory method of arriving at the trading profits for the period is further exemplified by the facts that no details are available for comparative purposes, and that there is no finality about the results arrived at, owing to the impossibility of bringing the books kept on this system to a "balance." It will be obvious to the student also that, in these circumstances, fraud is more easily committed, since the various salutary checks imposed by the Double Entry system are wanting.

The only really satisfactory way of preparing accounts from Single Entry books is to install a Double Entry system. This can be done if the trader has followed the methods described above, so far as they extend, with a reasonable degree of exactitude.

In carrying out the practice of posting the personal items from the Cash Book to the Ledger we have already seen a modicum of Double Entry methods, and the conversion of the remainder of the books from the one system to the other consists of the extension of this rule. The first step is to prepare a Statement of Affairs at the commencement of the selected period.

Assuming that the Cash Book, Personal Ledger, Purchases Book and Sales Book have been kept (with, possibly, Returns Books and Bill Books), the process of conversion from Single Entry to Double Entry proceeds upon the following lines—

1. A Nominal Ledger is brought into use, and the balances appearing in the Statement of Affairs are entered in it, by means of a Journal entry, with the exception of the cash, debtors and creditors, the necessary records of which already appear in the Cash Book and Personal Ledger.

The opening balances are, in this manner, brought into line with Double Entry principles.

2. In the Single Entry book-keeping which has already

been accomplished, such items in the Cash Book as relate to personal accounts have been duly posted in the Personal Ledger. It remains, therefore, to go carefully through the Cash Book and to post to appropriate accounts to be opened in the Nominal Ledger all the "impersonal" Cash Book items. The Cash Book thus becomes an ordinary Double Entry Cash Book, and the items in it are duly posted according to Double Entry methods.

3. In the Single Entry work already carried out, the Purchases Book, Sales Book (and, possibly, the Returns and Bill Books, if the same have been kept) have been entered up and posted to the Personal Ledger accounts kept for the persons with whom the transactions were effected. These books may or may not have been added up; if not already completed, the additions must be made, and the totals thus arrived at must be posted in the Nominal Ledger to appropriate accounts, just as is the case in ordinary Double Entry book-keeping, *e.g.* the Sales Book must be added up and the total of the sales for the period posted to the credit of the Sales Account, and so on. In this manner the Double Entry for the sales, purchases, etc., is duly achieved, and these books are consequently also brought into harmony with Double Entry principles.

4. Many isolated items will probably be found in the Single Entry Personal Ledger for which no compensating posting has been effected, such as discount allowed and received, returns inwards and outwards, allowances, transfers from one account to another, and so forth. Before any "balance" of the books can be arrived at, it is necessary that the compensating Double Entry for all these items shall be completed. Items of this class must, therefore, be carefully picked out from the various accounts in the Ledger, and collected and analysed into totals upon sheets of paper according to their nature (*e.g.* all discounts which have been allowed must be picked out from the Ledger upon a sheet headed "Discounts allowed"). The total of each class of item, when ascertained, must be posted to its appropriate account in the Ledger, and upon the correct side of that account, *e.g.* the total of discounts allowed, arrived at by the process of extraction from the Ledger described above, must be posted to the debit of the Discount Account. If preferred, these entries can also,

of course, be passed through a Journal if it is desired to approximate to Double Entry book-keeping in every detail.

5. Any other entries appearing in the Single Entry books, and not previously dealt with under one or other of the above rules, must be brought into Double Entry semblance in like manner.

The foregoing measures having been carried through, it will be recognised that their combined effect is to complete the Double Entry in every case, starting with the opening balances and continuing through every transaction to the close of the year under review. A complete Double Entry system having thus been brought into existence where only a Single Entry system existed previously, a Trial Balance can now be prepared, followed by a Balance Sheet and a Profit and Loss Account prepared in the ordinary way.

The Single Entry system of book-keeping is sometimes confused by the student with the "Single Account" method of preparing a Balance Sheet. Examination candidates not infrequently confuse the two terms, which are by no means synonymous.

As the student may learn at a later stage of his career, Balance Sheets were at one time prepared, in accordance with the requirements of certain statutory forms, applicable to Public Utility Companies, such as Railway Companies, Gas Companies, Water Companies, etc., in two or more sections, and the name given to this method of accounting is the "Double Account System." In order to distinguish this "Double Account" Balance Sheet from the common form of Balance Sheet prepared in one single statement (such as those illustrated on page 141), the term "Single Account System" is sometimes employed; but this designation has no reference whatever to book-keeping by Single Entry methods. As has been previously indicated, a proper Balance Sheet prepared on the Single Account System almost invariably pre-supposes book-keeping by Double Entry.

EXERCISES.

13A.

1. What is understood by pure Single Entry book-keeping? Is it ever found in practice?

2. What form of book-keeping in modern use goes by the name of "Single Entry book-keeping"? Is this designation strictly correct?

3. Explain to what extent (if any) the following books are used in modern Single Entry book-keeping—

Cash Book,
Sales Book,
Bills Receivable Book,
Returns Book.

4. What are (1) the disadvantages, (2) the advantages, of Single Entry book-keeping as compared with the Double Entry system?

5. How can a trader who keeps his books by "Single Entry" ascertain his profits for a given period?

6. Compare, from the standpoint of efficiency, the methods of ascertaining profits under Single Entry and Double Entry book-keeping principles.

7. Explain how a trader, having kept his books accurately upon Single Entry principles (as far as that system extends) can convert his Single Entry book-keeping for a given period into Double Entry book-keeping.

8. Discuss the following proposition—"The accuracy of profits ascertained from books kept upon Single Entry principles depends to so large an extent upon the trader's memory that the Single Entry system of arriving at profits can only be regarded as most unreliable."

9. Discuss the following statement—"Book-keeping by Double Entry is worthy of being called a *system;* book-keeping by Single Entry amounts to nothing more than a series of disconnected memoranda."

10. Differentiate between the terms "Single Entry System" and "Single Account System" as used in book-keeping.

13B.

The financial position of John Higgins, who commenced business on January 1, was as follows—

	£	s.	d.
Cash at the bank	412	10	0
Stock of goods on hand	1,009	0	0
Plant and machinery	80	0	0
Debtor—O. Jones	124	0	0
Creditor—V. Murray	609	5	0

The following transactions took place during January—

			£	s.	d.
Jan.	2.	Drew from the bank for office cash	10	0	0
,,	2.	Sold to O. Jones goods on credit	16	0	0
,,	4.	Bought goods from V. Murray (on credit)	139	5	1
,,	5.	Received from O. Jones by cheque	135	0	0
		Allowed him discount	5	0	0
,,	6.	Drew cheque for sundry office expenses	4	16	7
,,	6.	Paid from office cash, salaries	3	10	6
,,	7.	Bought goods from V. Murray (on credit)	6	5	4
,,	7.	Sold to Wilkinson & Co. goods (on credit)	532	16	9

			£	s.	d.
Jan.	8.	Received from Wilkinson & Co. Cheque	530	0	0
,,	8.	Received from Wilkinson & Co. goods returned as unsuitable, invoiced to them at	2	16	9
,,	9.	Paid V. Murray by cheque on account	600	0	0
,,	11.	Paid from office cash for stationery and postage stamps . . .	1	10	10
,,	12.	Sold to Morrison & Co. goods (on credit)	346	19	3
,,	13.	Paid V. Murray by cheque further on account	100	0	0

Note.—All cheques received are banked on the same day, and all payments are made by cheques unless otherwise stated.

From the above details write up John Higgins's books *by Single Entry*, and, including the matters set out hereunder, prepare statements showing John Higgins's position as on January 13, and the profit made to that date.

The stock on hand as on January 13, was valued at £362 13*s.* 4*d.* Plant and machinery on hand was valued on January 13, at £79. The stock of stationery and postage stamps on hand on January 13, is to be valued at £1 2*s.* 6*d.*

13C.

Richard Hyston, who is a trader in a small way of business, keeps his books by Single Entry, but now finds that it is necessary for him to ascertain his profit for the three years ended December 31, 19—, in order to obtain reduction of an over-assessment which has been made upon him for Income Tax.

He furnishes the following details as to his position on December 31, 1st year.

	£	s.	d.
Balance at bank to his credit (as per pass-book)	94	9	6
Stock of goods on hand estimated at . . .	200	0	0
Shop fixtures and fittings (valued at cost) . .	45	0	0
Sundry debtors	132	5	9
Sundry creditors	314	16	10

He also furnishes the following details as to his position on December 31, 3rd year.

	£	s.	d.
Overdrawn balance at bank	10	5	9
Stock of goods on hand	392	1	5
Shop fixtures and fittings valued at . .	30	0	0
Sundry debtors	342	1	9
Sundry creditors	475	11	9

During the three years he has withdrawn from the business in cash £12 on the last day of each month for his own private expenses.

Prepare—(1) Richard Hyston's Balance Sheet as on December 31, 3rd year.

(2) A statement showing what profit has been made for the three years.

13D.

Upon being questioned the Mr. Hyston mentioned in the preceding exercise (C) admits that his memory is not always reliable, and, upon further investigation, the following facts are brought to light in regard to the statements furnished by him in the preceding question—

A. In the statement of the position as on December 31, 1st year.

1. Stock of goods on hand should have been £210.
2. Sundry creditors should have been £319 17*s.* 5*d.*
3. The value of a cart and horse (£35) owned by Mr. Hyston has been entirely omitted.

B. In the statement of the position as on December 31, 3rd year.

1. Shop fittings and fixtures are worth only £20, not £30 as stated.
2. Of the sundry debtors (£342 1*s.* 9*d.*) debts amounting to £25 1*s.* 6*d.* are absolutely bad; in addition to this a reserve of 50 per cent. of their face value must be provided on debts amounting to £22 10*s.* 4*d.*; the remainder of the book debts are good.
3. The value of the cart and horse mentioned above may now be taken at £30, and an additional horse bought and paid for during the three years, and estimated to be worth £25, must be taken into account as on December 31, 3rd year.
4. During the six months ended December 31, 2nd year, R. Hyston's drawings were at the rate of £14 per month instead of £12 per month as previously stated; the figure of £12 per month holds good for all the other months during the three years under review.
5. On December 31, 3rd year, the sum of £3 4*s.* 9*d.* was in the shop till, but was omitted from the statement furnished, and, in addition, the till contained an I.O.U. for £1 lent to a carman, which sum had not been included in the sundry debtors.

From the foregoing particulars prepare amended statements showing (1) R. Hyston's position as on December 31, 3rd year, and (2) the net profit made during the three years.

Answers.—13B. Net Profit, £86 6*s.* 9*d.*
13C. Net Profit for the three years, £553 7*s.* 3*d.*
13D. Net Profit for the three years, £538 5*s.* 11*d.*

CHAPTER XIV

GOODS ON SALE OR RETURN—CONSIGNMENT ACCOUNTS

THE student must be careful to distinguish between Consignments on the one hand and Goods sent on Sale or Return on the other. In the case of a Consignment the recipient of the goods is an *agent* of the sender; the nature of the relationship, and the special book-keeping records involved, are fully explained on pp. 239–248. In the case of goods sent on Sale or Return the recipient of the goods is a principal. He may himself buy the goods or a part of them: if not he must return them within the specified time.

GOODS ON SALE OR RETURN

Two alternative methods of record are in use: the question which of the two is more suitable in a particular case will depend chiefly on the number of transactions.

If the transactions are fairly few, and the subject matter not very valuable, it may be sufficient merely to keep a special Sale or Return Journal. In addition to the necessary columns for dates, particulars and remarks there will be three money columns, for (*a*) Dispatches, (*b*) Returns and (*c*) Sales. As a check on accuracy all columns may be cast, when the total of (*b*) and (*c*) should together equal (*a*). Only column (*c*) however, forms part of the double entry, and is posted exactly like an ordinary Sales Day Book. The recipient of the goods does not become a debtor until he gives notice that he is keeping them, and the first two columns are accordingly for memorandum purposes only. All entries are made at selling price.

If transactions are numerous or valuable it is safer to keep the full records in double entry form. This entails the use of three special books :—

(*a*) Sale or Return Day Book.
(*b*) Sale or Return Journal.
(*c*) Sale or Return Ledger.

All goods sent on S. or R. are entered in the Day Book and posted to the Ledger in the same way as ordinary

sales are posted to an ordinary ledger. When notification of acceptance or return is received an entry is made in the Journal, which has a special ruling as follows :—

SALE OR RETURN JOURNAL

Date.	Particulars.	S. or R. Ledger		Sales Ledger.	
		Folio.	Amount.	Folio.	Amount.

If a customer returns an article the amount is entered only in the S. or R. column, and posted to the credit of the account concerned in the S. or R. ledger. If he buys it the amount is entered in both money columns and posted from the first to his credit in the S. or R. Ledger, and from the second to his debit in the ordinary Sales Ledger. At balancing times the difference between the totals of the S. or R. Day Book and the S. or R. column in the Journal is equal to the total of the balance standing open in the S. or R. Ledger, and is on the opposite side. These figures therefore cancel out as far as the double entry is concerned, and should be ignored when preparing the Accounts. It is important, however, to remember that balances in the ledger represent stock unsold, at selling price, in the hands of customers, and for the purposes of the Accounts such stock must of course be included at cost price : in some cases it may even be desirable to take a figure less than cost price, to allow for damage or depreciation.

Consignment Accounts

A considerable part of the export and import trade of this country consists of goods sent by British traders to their Foreign agents, to be sold on the British traders' account, or by Foreign traders to their British agents to

be sold for account of the Foreign traders. Such shipments of goods are, in commerce, termed **Consignments.**

Goods despatched on these terms do not become the property of the agent to whom they are consigned. There is no question of a sale having been effected as between the trader and his agent, and it is only when the agent has actually sold all the goods on the trader's behalf that they cease to be the latter's property. A *pro forma* "invoice" is sometimes sent by the trader to the agent upon the despatch to him of the goods, but this practice is merely formal. The object of the *pro forma* invoice is to instruct the agent as to the minimum prices at which he may sell the goods, and the position, from the accounting point of view, is not affected thereby.

In return for his services in selling the goods consigned to him, the agent is remunerated by means of a "commission," the amount of which is usually a definite percentage on the amount realised by the sale of the goods. Since the agent sells the goods only *as agent* on behalf of the shipper and not upon his own account, it follows that, if sales are made by the agent on credit, the shipper must run the risk of loss should any of the buyers of the goods consigned become insolvent. In order to avoid losses arising from this cause, it is frequently arranged between the shipper (the **Consignor**) and the agent (the **Consignee**) that any such losses shall be borne by the consignee instead of by the consignor; and in consideration for this extra risk borne by the consignee, the consignor allows to the consignee a higher rate of commission than he would allow if he himself (the consignor) had to bear the risk of bad debts. This extra commission is termed **Del Credere** commission. The Del Credere commission is sometimes shown separately from, and in addition to, the ordinary "selling" commission; but sometimes the two commissions are merged in one percentage.

Consignments despatched by a home trader to an agent for sale on his (the trader's) behalf are, as regards the home trader's books, termed **Consignments Outwards**; in the books of the agent they are called **Consignments Inwards,** and obviously the book-keeping methods of dealing with a consignment require explanation both as regards the books of the "Consignor" and the books of the "Consignee."

In thus consigning goods to an agent abroad, the con-

signor is temporarily deprived of a portion of his working capital, until such time, in fact, as the proceeds obtained by the sale of the goods are received by him. If the goods consigned are of the consignor's own manufacture, they represent money already expended by him in raw material, wages and other incidental expenses; and, if purchased by him in a manufactured state, they represent a liability which, in due course, he will have to meet.

To avoid this inconvenience to the consignor, it is frequently arranged between the consignor and the consignee that the former shall draw a bill of exchange on the latter for an agreed percentage of the value of the goods, the tenor of the bill being for the average time it is anticipated that will elapse before the goods are sold. To make this bill more readily negotiable, it is common in such cases to bring into play the particular kind of bill called a **Documentary Bill**, mentioned on page 221. The consignor draws upon the consignee a bill of exchange at the agreed tenor in anticipation of the proceeds of the consignment, and attaches to it the **Bill of Lading** (*i.e.* the document of title issued by the shipping company when the goods are shipped), and sells ("discounts") the bill of exchange (with the Bill of Lading attached thereto as security) to a banker having a branch, or agency, in the consignee's city. Students must remember that the consignee has no liability to pay the consignor until the goods are sold. Any bill drawn on him is thus in anticipation of sales, and can only be by arrangement, and is usually drawn for a sum considerably less than the real value of the goods, in order that the banker who buys it and the consignee who subsequently pays it may be amply secured, since the latter will have to meet his acceptance on its due date whether he has then sold the goods or not.

The banker who has bought a bill of this description sends it to his agent in the consignee's city, and the consignee can thereupon secure the liberation of the whole of the goods on paying the amount of the bill (under a "rebate allowance" for prepayment); or he has the option of taking delivery of the goods piecemeal on paying proportionate instalments of the bill; or, if the consignee be a trader of undoubted financial stability, the local bank holding the bill will frequently deliver to him the Bills of Lading in exchange for his acceptance alone written on the bill.

When the goods have been sold and the consignee in due course remits the proceeds of the consignment to his principal, he, of course, deducts the amount of any bills he may have accepted against such proceeds.

Ordinary double entry methods are employed for the book-keeping records of consignments. The fact, however, that the property in goods sent on consignment remains in the exporter until actual sale has been effected, entails special application of double entry methods which need explanation.

The Consignor's Books

When goods are despatched "on consignment" it is all important to remember that they must not be debited to the consignee's Personal Account, for, as has been previously explained, he only becomes a debtor when he has sold the goods, or part of them. He may, in fact, return them if he fails to sell them. In short, he is not a *debtor* but merely an *agent.*

When the goods are sold by the Consignee an actual sale of course takes place; the amount may if desired be passed through the sales book like any other sale, and any expenses incurred by the Consignee credited to him and debited to an appropriate nominal account by means of a journal entry. In this case the final Accounts will not discriminate in any way between sales by Consignees and any other sales, and the profit realised on individual consignments, or all consignments if more than one, will not be known unless memorandum statements are prepared in order to ascertain the same.

It is usual, however, to keep the books in such a way that the profit on each consignment can be ascertained directly therefrom. To bring this about a separate account is opened for each consignment and suitable modifications of the ordinary book-keeping made. The entries are as follows :—

(*a*) On forwarding the consignment, enter the value, *at cost*, to the debit of "Consignment to AB" and credit "Consignment Outward." All consignments are to be credited to the latter account, but the former deals with this particular consignment only. If consignments are at all numerous the various accounts will most conveniently be kept in a special ledger, called the *Consignment Ledger.*

(*b*) To the debit of the particular Consignment Account in question must be posted all charges, *e.g.* freight, insurance, duty, etc., disbursed by the Consignor in connection with the shipment.

(*c*) The net proceeds, as notified by the Consignee from time to time, are credited to the same account and debited to the Consignee's personal account. Alternatively, the gross proceeds may be dealt with, and any charges paid out by the Consignee, together with his commission, shown on the opposite side of the account. The final result is the same, but the latter method gives fuller information. The particulars as to the sales and expenses are notified by the Consignee on a document called an Account Sales (A/S), a specimen of which will be found on p. 246.

(*d*) Remittances received from the Consignee (including the proceeds of any drafts drawn on him in anticipation (see p. 241)) are credited to his personal account, *not* to the Consignment Account, and on final settlement the personal account is of course balanced and closed off.

(*e*) Since the cost of the goods consigned and all expenses in connection with the same have been debited to the Consignment Account, while the proceeds of sale are credited, on completion of the transaction the account will show a balance representing profit (or loss). At the end of the trading period this balance, together with the balances on other similar accounts, will be closed off by transfer to the Profit and Loss Account, where they will appear on the credit side as "Profit on Consignments."

Should no part of the consignment have been sold at the end of the trading period, the balance on the Consignment Account is simply brought down. It represents the value of stock in the hands of the Consignee, and must be shown as such in the Balance Sheet, and *not* under the heading of Sundry Debtors. The figure will include any expenses which

may have been debited to the Consignment Account. A reserve should, however, be made if circumstances render it advisable, *e.g.* if the market price is falling, when the value of the goods might well be less than the total figure of cost plus expenses.

Should the consignment have been partly sold, some calculation will be necessary. The profit realised will be the proceeds of sale less the cost of that portion of the goods which has been sold, together with any expenses attributable to the same portion: to ascertain this last, it will be necessary to apportion the expenses carefully to ascertain how much of the total relates to the goods sold and how much to goods unsold.

(*f*) It was stated in (*a*) above that the cost of the goods consigned was credited to a "Consignments Outwards Account." At the close of the period, whether the goods have been sold or not, this account must be closed. It may be credited to Purchases Account, which will have the effect of eliminating from the balance of that account the cost of any goods consigned; the Trading Account, instead of showing separately the purchase and sale price of such goods in the ordinary way, will now simply show the profit realised, as shown under (*e*) above. Alternatively, the credit balance of "Consignments Outwards Account" may be credited to the Trading Account under the heading "Goods sent on Consignment, at cost." If combined with the figure of profit on consignments, the total would represent, so far as the goods had been sold, the gross proceeds of sale less expenses (but *not* less the cost of the goods, which remains debited under the heading of purchases); as regards goods unsold, it would represent merely the cost of the same. As it would not appear how much of the goods had been sold and how much not, the result would convey no useful information, and this method of presenting the Trading Account cannot therefore be recommended.

Finally, where consignments are numerous, a useful method of presenting the results in the final Accounts is to prepare a separate "Consignments Trading Account," which will show in totals the cost of goods consigned, the amount realised, and the expenses under suitable headings.

These figures are obtainable by means of an analysis of the separate Consignment Accounts, but the work is facilitated if the Consignments Ledger is balanced by means of a Total Account or Adjustment Account as used in the ordinary system of self-balancing ledgers (see Chapter XVII), this account having on the debit side analysis columns for the various types of expense. The totals of such columns there give the figures required for the Trading Account, while the Sales are at once obtained from the other side. The balance of the Consignments Trading Account is carried to the Profit and Loss Account in exactly the same way as the balance of the ordinary Trading Account.

The method of treatment described above, as regards a single consignment, is illustrated in the subjoined example :—

Example.—On January 1, 19—, Wilson Bros. ship upon consignment to Denniston & Co., of Durban, for sale by the latter, upon Wilson Bros.' account, 50 cases of Manchester goods invoiced *pro forma* at £15 10*s*. per case (the cost price). A commission of 2½ per cent. is payable on sales, plus an additional charge of 1 per cent. upon sales for *Del Credere* commission

Wilson Bros. pay in connection with this consignment: Freight £24 10*s*. and Insurance £5, and draw on Denniston & Co. at three months' sight for £500 against the shipment, selling the bill to the Natal Bank.

Denniston & Co. sell for cash on March 24, 20 cases of goods at £22 6*s*. per case; on April 8, 21 cases at £21 per case; and on the 9th of April, 9 cases at £25 per case. They accept Wilson Bros.' draft on February 1, 19—, and obtain immediate delivery of the goods through the Bank. They forward to Wilson Bros. an "Account Sales" on April 15, deducting therein the commission due to them at the agreed rates; their disbursements on account of the consignment are: Landing Charges, £4; Storage, Insurance, and Sundries, £14 5*s*. They remit a Bank Draft for £554 16*s*. 7*d*. to close the transaction, the question of interest being waived on each side.

The foregoing transactions are shown as they would appear in the books of Wilson Bros.; at the end of the section dealing with the consignee's accounts the transactions are again shown as they would appear in Denniston & Co.'s books.

ACCOUNT SALES of 50 Cases of Manchester Goods received from WILSON BROS., London, per ss. *Doric Castle*

Mark.		£	s.	d.	£	s.	d.
	Proceeds 20 cases goods at £22 6 0	446	0	0			
	" 21 " " 21 0 0	441	0	0			
	" 9 " " 25 0 0	225	0	0	1,112	0	0
WBL 370	*Less*—						
	Landing charges	4	0	0			
	Storage, insurance, and sundries	14	5	0			
	Commission, 2½ per cent. on £1,112	27	16	0			
	Del Credere, 1 per cent. on £1,112	11	2	5			
					57	3	5
					£1,054	16	7

Note.—Draft £500 accepted against above consignment, Feb. 1, 19—, due May 4, 19—

E. & O. E.
Durban April 15, 19—
Denniston & Co.

WILSON BROS.' LEDGER

Dr. **Consignment to Denniston & Co., Durban** Cr.

19—			£	s.	d.	19—			£	s.	d.
Jan. 1	To 50 cases of Manchester goods invoiced at cost, £15 10*s.* per case ...		775	0	0	May 15	By Denniston & Co., net proceeds of consignment		1,054	16	7
" 1	" Cash, Freight on above		24	10	0						
" 1	" Cash, Insurance		5	0	0						
June 30	" Profit on consignment transferred to Profit and Loss Account		250	6	7						
		£	1,054	16	7			£	1,054	16	7

Dr. **Denniston & Co., Durban** Cr.

19—			£	s.	d.	19—			£	s.	d.
May 15	To Net Proceeds of consignment of 50 cases of Manchester goods		1,054	16	7	Jan. 1	By Draft at 3 months' sight drawn against proceeds of consignment		500	0	0
						May 15	" Cash (Bank Draft)		554	16	7
		£	1,054	16	7			£	1,054	16	7

Consignee's Books

In the books of the consignee the method of recording the history of the consignment is comparatively simple.

Here, again, it must be remembered that the receipt of goods on consignment does not make the consignor the *creditor* of the consignee; the latter is merely the *agent* of the consignor. It is this relationship which governs the book-keeping entries.

Upon receipt of the consignment and the *pro forma* invoice accompanying it, no entry in the books of account is made, inasmuch as the goods do not become at any time the property of the consignee, and he is only concerned therefore in accounting, in due course, for the proceeds, as and when obtained by the sale of the goods. An entry recording the receipt of the consignment and the various details regarding it is made in a Memorandum or Statement book kept by the consignee. Books of this description are usually termed **Consignments Book Inwards or Outwards,** according as the entries recorded therein affect the keeper of the book.

Any drafts which may be drawn by the consignor against the proceeds of the consignment and accepted by the consignee are debited by the consignee in the Personal Current Account kept by him under the name of the consignor. Remittances made direct by the consignee to the consignor, or money paid to third parties by the consignee on account of the consignor, in connection with the consignment, are also debited by the consignee to this account. So, too, are all the charges, such as dock and warehouse charges, insurance, etc., disbursed by the consignee in connection with the consignment. So, also, is the consignee's commission. When, finally, this account is credited by the consignee with the *net* proceeds of the consignment, the balance of the account will represent the amount to be paid by the consignee to the consignor in order to close the transaction.

As has been stated, the proceeds of the consignment, whether sold for cash or upon credit, are credited to the Personal Account of the consignor, the corresponding debit being to "Cash," or to the Personal Account of the purchaser of the goods, according as the sales have been for cash or upon credit.

The above principles are illustrated in the subjoined

example, wherein the transactions appearing in Denniston & Co.'s (the consignee's) books relative to the consignment set out previously in this chapter are passed through their books, their account with Wilson Bros. (the consignors) being shown.

DENNISTON & CO.'S LEDGER

Wilson Bros., London (*re* consignment ex ss. ***Doric Castle***)

Dr. **Cr.**

19—		£	*s.*	*d.*	19—		£	*s.*	*d.*
Feb. 1	To Draft in favour of Natal Bank accepted	500	0	0	Mar. 24	By Proceeds of 20 cases of goods sold for cash at £22 ...	446	0	0
„ 4	„ Landing charges	4	0	0	Apl. 8	„ Proceeds of 21 cases at £21 ...	441	0	0
Mar. 20	„ Storage, insurance, and sundries	14	5	0	„ 9	„ Proceeds of 9 cases at £25 ...	225	0	0
Apl. 15	„ Commission...	27	16	0					
„ 15	„ *Del Credere* commission ...	11	2	5					
„ 15	„ Cash, Bank Draft drawn on Natal Bank, Ltd., London	554	16	7					
	£	1,112	0	0		£	1,112	0	0

The following terms are frequently used in preparing Account Sales in connection with quantities or parcels of goods, viz. "Gross Weight," "Tare" and "Net Weight," and it may be useful to explain them here briefly—

The **Gross Weight** or "Gross" is the weight of goods or commodities as packed, *i.e.* including the weight of the cask, crate, box or material in which they are contained.

Tare signifies the weight of the crate, cask, box or material containing the goods if weighed separately from the goods themselves.

The **Net Weight** or "Net" is obtained by deducting the *"Tare" from the "Gross Weight,"* and represents the actual weight of the goods themselves.

Thus, if in connection with a consignment of coffee the weights are stated as :—Gross, 100 cwt.; Tare, 3 cwt.; Net, 97 cwt., the interpretation is that 97 cwt. of coffee were contained in a package weighing 3 cwt., the total weight of the goods and packing being 100 cwt. The

value of packages is usually ignored in examination questions.

Current Accounts between Merchants

In cases where considerable balances may, from time to time, be owing as between merchants and their foreign agents, it is customary for interest to be allowed by the one party to the other upon the current balance of account between them. The creditor in the transaction thus obtains some compensation for the temporary loss of the use of moneys allowed to remain in his debtor's hands.

Many methods of charging this interest exist, but it will be sufficient to illustrate here one of the most usual methods of charging interest.

It will be remembered that the interest for any given time upon any sum of money may be calculated according to the following formula—

$$\text{Required Interest} = \frac{\text{Principal} \times \text{number of days} \times \text{rate per cent. per annum}}{100 \times 365}$$

In working out the total interest upon a number of consecutive daily (or other periodical) balances it suffices to multiply each balance (Principal) by the period of time for which it exists unaltered, and to add together the products so obtained; the multiplication of this total of products by the rate per cent. allowed, and its subsequent division by 36,500, will produce one figure of interest in sterling, and this figure represents the total interest upon the whole of the successive balances.

This method of calculating interest upon the current balance of an "Account Current" is customary among bankers, in whose Ledgers extra columns are provided for (1) the insertion of the daily or other periodical balances, (2) the number of days for which such balance has remained unchanged, and (3) the product obtained *by multiplying together the number of pounds in the* balance and the number of days. Column No. 3 (Product column) is added at the end of any given period, and by multiplying this total by the rate per cent. per annum allowed, and dividing the result by 36,500, a net figure of interest is obtained which represents the amount to be allowed to the customer.

This system may also be adopted as between merchants,

but it obviously necessitates the extension of each daily balance on a separate statement. It is customary, therefore, in commercial practice, to calculate interest in a way which may, at first sight, appear more cumbersome, but which produces the same result without involving the tedious extraction of daily balances. Instead of each daily balance being multiplied by the number of days for which it remains unchanged, each item on either side of the account is multiplied by the number of days elapsing between the date of its happening and the starting date of the account (or the date up to which interest was last calculated upon the account being ruled off and balanced). The total of the products thus obtained on the Debit side of the account is offset against the total of the products obtained on the Credit side of the account, and the difference between the two total products is multiplied by the rate per cent. per annum and divided by 36,500 as in the " daily balance " method explained above. The net figure of interest so obtained in sterling is the net amount to be allowed or charged to the customer.

A specimen form of an account current between two merchants, whereon interest is running at 5 per cent. per annum, appears on page 251. It must be noted that in such accounts balances are brought down under the date of the closing day of each period (*e.g.* April 30 and June 30), and not, according to the more customary usage, under the date of the opening day of each succeeding period (*e.g.* May 1 and July 1). This precaution is necessary in order that a day's interest may not be omitted.

EXERCISES.

14A.

1. Explain briefly the nature, objects and methods customary in connection with " consignments " of goods from one merchant to another.

2. Differentiate between " Sales " and " Consignments," explaining the principal features of each.

3. What is a " *Del Credere* " commission? What benefit accrues to the consignor through its payment?

4. What is an " Account Sales "?

5. What is the legal position of a consignee as regards goods shipped to him " on consignment "? Are such goods his property at any time during the transaction?

6. Explain what is meant by a consignor " drawing a bill upon his consignee against the goods consigned." What happens to such a bill, and wherein does the consignor derive benefit from the procedure?

Dr. WILSON, BROWN & CO., London, in account with MERRILIES BROS., Calcutta. **Cr.**

Date.	Details.	Folio.	£	s.	d.	Days.	Product.	Date.	Details.	Folio.	£	s.	d.	Days.	Product.
19—								19—							
April 30	To Balance brought down	√	3,000	0	0			May 25	By Cash	24	2,000	0	0	25	50,000
May 3	„ Goods	36	400	10	0	3	1,200	„ 26	„ Returns	361	100	9	0	26	2,600
June 30	„ Interest .... $\left(£\frac{105,400 \times 5}{365 \times 100}\right)$ = £14 8*s.* 10*d.*	298	14	8	10		105,400	„ 27	„ Goods	79	700	6	0	27	18,900
								June 24	„ Cash	32	250	0	0	55	13,750
								„ 30	„ Balance, £349 15*s.* 0*d.*					61	21,350
								„ 30	„ Balance carried down	√	364	3	10		
			£3,414	18	10		106,600				£3,414	18	10		106,600
19—															
June 30	To Balance brought down	√	364	3	10										

7. Explain the entries made by a consignee in his books—
   (*a*) On the receipt of the consignment,
   (*b*) On the sale of a portion of it,
   (*c*) On remitting to the consignor the net proceeds of the sale of the goods.

8. How should consignment accounts which are still open at the date of balancing be dealt with in the books of a consignor?

9. Explain the working of a current account between merchants in which interest is to be worked on the account from day to day.

10. Explain the terms "Gross Weight," "Tare," and "Net Weight" as used in an account sales.

14B.

Arabi Kaid & Co. of Smyrna forward to H. Hope & Co. of London a consignment of 100 half bales of coffee marked "A. K. & Co." for sale on commission (including *Del Credere*) of 1½ per cent. on the proceeds.

The weights of the coffee were—

Gross	154 cwt. 3 qrs. 14 lb.
Tare	8 cwt. 0 qrs. 14 lb.

The coffee was sold at 61*s.* per cwt., less 1 per cent. discount for cash. Hope & Co.'s charges were as follows—

	£	*s.*	*d.*
Brokerage, ½ per cent.	2	4	10
Landing Charges	5	9	10
Fire Insurance	2	10	0
Rent	10	9	1
Marine Insurance	4	2	8
Commission and *Del Credere*, 1½ per cent. on Sales.			

From the above particulars prepare the Account Sales to be rendered under date June 1, 19—, by Hope & Co. to Arabi Kaid & Co.

14C.

Pollock Bros. of Swansea purchased and consigned on June 1, 19—, 2,000 tons of Welsh Steam Coal to Gremaud Frères of Marseilles, per ss. *Louise*, the coal being invoiced at 10*s.* per ton, this being the cost of the coal to Pollock Bros.

Against this consignment Pollock Bros. drew a draft at thirty days' date upon Gremaud Frères for £500, the draft being dated June 2, 19—. This draft was sold to the Comptoir National d'Escompte de Paris in London for £498.

Pollock Bros. paid the following charges on the consignment—

	£	*s.*	*d.*
Freight, 2,000 tons at 1*s.* per ton . . .	100	0	0
Insurance, £1,100 at 2*s.* per cent. . . .	1	2	0
Loading and dock charges at Swansea .	10	4	9
Railway charges to Swansea, 6*d.* per ton .	50	0	0

Gremaud Frères received the consignment of coal on June 8 and effected the following sales for cash—

	frs.
1,000 tons at frs. 20 per ton	20,000
1,000 tons at frs. 21 per ton	21,000
	frs. **41,000**

Gremaud Frères rendered on June 10 an Account Sales for the above proceeds, including the following charges—

	frs.
Dock charges at Marseilles	625
Sundry Disbursements	555
Gremaud Frères' commission on sales, 2 per cent.	820
	frs. 2,000

Gremaud Frères accepted Pollock Bros.' draft for the equivalent in francs of £500, *i.e.* frs. 12,500, and remitted a draft on London for the equivalent of the net proceeds of the consignment after deducting the £500 draft, as under—

	frs.
Gross proceeds of consignment	41,000
Deduct charges	2,000
	39,000
Deduct £500 acceptance	12,500
Draft on London obtained for £1,060, equivalent of	frs. 26,500

Note.—Twenty-five francs have been taken as the equivalent of £1. The par rate is now, of course, Frs. 124.21 = £1, and the export price of Welsh steam coal is about 20*s.* per ton.

Show the transactions relating to the foregoing consignment—

1. In the books of Pollock Bros. (in pounds sterling).
2. In the books of Gremaud Frères (in francs).

14D.

Show the following transactions in the form of an Account Current bearing interest at 5 per cent. per annum, to be rendered by Murphy & Co. of London, to Gellibrand Bros. of Cape Town, made up to June 30, 1931.

		£	*s.*	*d.*
1930				
Dec. 31.	Debit Balance owing to Murphy & Co. by Gellibrand Bros. . . .	1,000	0	0
1931.				
Jan. 15.	Murphy & Co. paid R. Jones for account of Gellibrand Bros. .	200	0	0
Mar. 24.	Gellibrand Bros. remitted Murphy & Co. by Bank Draft . . .	1,000	0	0
April 15.	Murphy & Co. sold Gellibrand Bros. goods invoiced at . . .	192	0	0
May 3.	Murphy & Co. paid on account of Gellibrand Bros.—			
	To W. Herries	10	0	0
	,, R. Herries	10	0	0
	,, Mrs. H. Herries	50	0	0
June 9.	Murphy & Co. paid on account of Gellibrand Bros.—			
	To the Northern Weaving Co., Ltd.	329	0	0
	,, Union Castle Mail SS. Co. .	38	0	0

			£	s.	d.
June	11.	Murphy & Co. received a parcel of bullion remitted to them by Gellibrand Bros. for sale on the latter's account	1,029	0	0
		And paid assaying charges thereon	4	0	0

Answers—

14B. Net proceeds after deducting all charges and commission £411 11*s*. 6*d*.

14C. Pollock & Co.'s books:—Net Profit on consignment, £398 13*s*. 3*d*. Totals of Consignment Account, £1,560. Gremaud Frères:—Totals of Consignment Account, 41,000 frs.

14D. Credit Balance of Account at June 30, 1931, £179 2*s*. 9*d*. Interest debit, £16 17*s*. 3*d*.

CHAPTER XV

PARTNERSHIP ACCOUNTS

THE accounts previously illustrated in this treatise relate, for the most part, to cases where the undertaking is the sole property of one person trading on his own account.

In small business undertakings, the "sole trader" is generally the only person who has any stake in the concern; on the other hand, large private mercantile businesses more frequently belong to a number of joint proprietors, trading in common with a view to mutual profit, and jointly sharing in the direction of the undertaking, which is carried on by all or any of them on behalf of all of them. This trading relation is known as a **Partnership,** and the joint owners are known as **Partners.**

Collectively, the partners are called a **Firm,** and the name under which they trade is the **Firm Name.** Any "firm name" may be adopted provided that no fraud is intended by the use of the name. If the firm name does not consist of the true surnames of the partners, it must be registered under the *Business Names Act*, 1916.

A partner who takes part in the management of the business is termed an **Active Partner.** A partner who has capital in a business, but who takes no active part in its management is termed a **Dormant or Sleeping Partner.**

A partnership may be for a **Term,** *i.e.* the period fixed by agreement, or **At Will,** *i.e.* when no term has been fixed. In the latter case the partnership may be terminated at any time.

The *Partnership Act*, 1890 (Sec. 1), defines partnership as being "the relation which subsists between persons carrying on a business in common with a view of profit."

Under the provisions of the *Companies Act*, 1948, S. 434, no partnership may be formed consisting of more than *twenty* persons, unless it is registered as a

company. In the case of banks the partners may not exceed *ten* in number, unless registered under the Companies Act (S. 429). The objects of the partnership must be legal.

The accounts of a partnership naturally differ, as regards the capital accounts and the division of profits, from the accounts of a sole trader, although, as regards the detailed transactions recording the trading side of the business (*i.e.* the purchases, sales, expenses, etc.), they are identical with those of a sole trader engaged in a similar business, as already described in previous chapters.

The main characteristics, so far as they concern us here, of an ordinary partnership are as follows—

1. All the partners in a firm are individually liable for the whole of the partnership debts.

   Note.—Partnerships in which the liability of one or more of the members may be limited to a certain specified sum can now be formed under the *Limited Partnerships Act*, 1907, but are not very frequently met with.
2. All partners contribute, as a rule, "Capital" to the common fund, although their contributions may, and frequently do, differ in amount.
3. All partners share in profits and share the losses; the proportions in which they divide may differ or vary as between different partners, and may or may not be calculated according to the proportionate amount of the capital contributed by each partner.
4. All partners are entitled, in the absence of any agreement to the contrary, to share in the direction of the undertaking, but are not entitled, in the absence of a special agreement, to any salary for so acting.

These matters, and others which do not concern us for present purposes, are detailed in an agreement called a **Deed (or Articles) of Partnership,** which is signed by all the partners constituting the firm, and forms the basis of their rights, and duties *inter se*. Articles of Partnership are advisable but not compulsory.

Every properly-drawn Deed of Partnership contains clauses dealing with the undermentioned matters affecting the partnership accounts—

(*a*) The Capital arrangements of the partnership, the proportionate shares in which it is to be contributed, and any agreement there may be as to whether such contributions are to be "fixed" in amount.
(*b*) The agreed arrangements as to the drawings of the partners.
(*c*) The agreed division of profits and losses, both of a "Capital" nature and otherwise.
(*d*) The terms agreed upon as to the allowance of Interest upon Capital, and Loans (if any) and the charging of Interest upon Drawings.
(*e*) Partners' salaries (if any).
(*f*) The agreement arrived at as to Goodwill (if any), especially in case of retirement or death.
(*g*) Provision for the preparation of proper annual accounts, and for the audit thereof.

In cases of dispute, where no mutual agreement can be arrived at by the partners upon any points which are inadequately covered by the Deed of Partnership, the provisions of the *Partnership Act*, 1890, and the legal decisions arising thereunder, will be applied to settle the matters at issue. In cases of dispute the appointment of an arbitrator, if agreed to by all parties, is usually the best course to pursue, and a clause agreeing to submit all matters in dispute to arbitration is included in many partnership deeds.

In cases where there is no Partnership Deed, and where no mutual agreement can be arrived at between the partners, the *Partnership Act*, 1890 (Sec. 24), provides that—

1. Partners are entitled to share equally in the capital and profits and must contribute equally to the losses, whether of Capital or otherwise.
2. Partners are entitled to receive out of the undertaking interest at the rate of 5 per cent. per annum on any advances they may make *apart* from Capital.
3. Partners are not entitled to be credited with interest on the balances of their Capital Accounts prior to the ascertainment of profits.
4. Partners are not entitled to any salary for acting in the partnership business.

Students are sometimes confused by these rules, since partnership agreements almost invariably make provision for the matters named. Confusion will, however, disappear when it is realised that these rules apply only to cases where *no deed or mutual agreement exists between the partners.*

The Capital of a partnership, in almost every instance is contributed by more than one individual, and it is consequently necessary to recognise this fact in the partnership books. The combined Capitals of all the partners in a partnership correspond to the single Capital Account of a sole trader in that they both express and represent the excess of the Assets of the business over its Liabilities; it must, however, be pointed out that the liability for business debts either in the case of a sole trader, or in that of an individual partner, extends beyond the amount of whatever Capital he may have embarked in the business, and that the whole of his private property (if any) is subject to the satisfaction of his business obligations.

It has already been explained that the capital of a sole trader is credited to his Capital Account. In the case of a partnership the Capital of each individual partner is credited in an analogous manner to each partner's separate Capital Account, and he is, for book-keeping purposes, regarded as a creditor of the firm for the amount of his Capital. At the end of each trading period the net profit (or the net loss) as shown by the firm's Profit and Loss Account is divided among the partners in the proportions prescribed by the partnership agreement (or in default of any such agreement in equal shares among them), and the share of each partner under such division is transferred to his Current, or Drawings Account, either to the credit of the account in the case of a profit, or to its debit in the case of a loss.

It is customary for partners to be authorised, under their deed of partnership, to withdraw agreed yearly sums from the business by instalments, at such periodical intervals as may be agreed upon, in anticipation of the shares of profits to which they will be entitled when the firm's annual accounts are prepared in due course. These periodical withdrawals are termed **Drawings.**

In earlier days it was customary to debit partners' drawings, as they occurred, to their Capital Accounts:

the modern, and more convenient, method is to open two separate accounts for each partner, viz. (*a*) a **Capital Account**, and (*b*) a **Current, or Drawings Account.** The purpose of the former is to record the amount of capital contributed by the partner, and this will remain unaltered unless some change takes place in the agreed capital of the partner. The Current Account is used to record particulars of all other transactions between the firm and the partner, such, *e.g.* as (1) the amounts withdrawn by the partner and the interest chargeable thereon, (2) interest on capital, (3) share of profit or loss, (4) partnership salary (if any), (5) goods withdrawn by the partner (if any), (6) interest on loans (if any), and the like.

When money is advanced by a partner to his firm by way of loan, a separate Loan Account should be opened. In the absence of agreement to the contrary, all sums advanced in excess of the "fixed Capital" should be treated as loans carrying interest at the rate agreed upon, which should be noted at the head of the Ledger account; if no rate has been fixed, then, as we have already seen, the partner is entitled to 5 per cent. interest. As indicated above, the interest on loans should be passed through the partner's Current Account, and should not appear in the Loan Account.

The personal accounts of the partners are kept precisely as though the partners were outside persons dealing with the firm. Any balances remaining to the credit of partners' Current Accounts are carried forward to the next financial period, and partnership deeds usually provide that such credit balances shall carry interest at an agreed rate until withdrawn. If a debit balance is shown on a partner's Current Account, it must be treated as a debt due to the firm, and be set out *separately* in the Balance Sheet as an asset.

The two main reasons for the modern practice of keeping separate Capital and Current Accounts are:—first, because the conflicting opinions which have arisen out of the *Partnership Act*, 1890, have caused "fixed" capital contributions to become increasingly popular under deeds of partnership, and secondly, the obvious advantage of keeping the Capital Accounts free from cumbersome detail.

When answering examination questions, the candidate will be well advised to follow the modern practice.

It is a common occurrence to find in a partnership agreement some such provision as the following :—

> Partners shall be credited at the end of each year with interest at the rate of 5 per cent. per annum upon the amount of their capitals at the beginning of each year," *or*, "upon the current balances of their Capital Accounts."

This custom of allowing interest to partners upon their capital is a general one, although the "Interest" (so-called) is not in the ordinary sense interest which has been earned by the business as such; it is merely an appropriation to the credit of each partner of a preliminary share of the firm's profits based upon the amount of his Capital Account, and can only be termed "Interest" for convenience.

In cases where the Capital employed in a firm is contributed in unequal shares by the various partners, it is but equitable that the claims of those partners who contribute the larger share of the Capital should be recompensed by the allowance of interest at a fixed rate upon the credit balance of all the partners' Capital Accounts. Any inequality in the contributions of capital by the partners is thus fairly adjusted as between themselves.

Interest so credited to partners upon their Capital must perforce be debited, as if it were an ordinary payment of interest, in the Profit and Loss Account. It is preferable to debit this interest charge in the Appropriation Section of the account; the net profits shown in the Profit and Loss Account will then show the actual *trading* profits as distinct from partnership adjustments. The practice now generally adopted is to bring down the net profit to the credit side of the Appropriation Section, which is then debited with interest on capital, shares of profits, Partnership Salaries, and other partnership adjustments (see page 265).

As has been pointed out above, if the partners' capitals are, as frequently is the case, disproportionate to the shares of profits taken by them, the charging and allowing of interest upon the Capital Accounts of the partners to a certain extent compensates for these inequalities, *e.g.* it is possible to conceive of a partnership of two persons where the Capital of one partner was £10,000 and that of the other £1,000, and where both partners contributed an equal amount of work and ability

and were entitled to an equal share of the profits. In such a case it will be obvious that, if, before ascertaining profits, the larger Capital Account is to receive interest at, say, 5 per cent. per annum on £10,000, and the smaller that upon £1,000, the excess of capital contributed by the one partner receives due compensation.

In cases where one of the partners in a firm devotes more time to the affairs of the partnership, or possesses greater skill or experience than his co-partner, it is not unusual for such a partner to be paid a salary in recognition of his services, such salary to be charged against the profits of the firm prior to division. These salaries are called **Partnership Salaries.** For the reasons stated above in connection with interest on Capital, etc., it is preferable to debit these salaries to the Appropriation Section of the Profit and Loss Account.

The practice of allowing interest upon Capital at fixed rates of interest also has the effect of demonstrating to the partners the extent to which they have derived additional profit by placing their money in a trading concern, as compared with the return which they would have obtained had they merely invested their capital in ordinary securities, and drawn the interest or dividends accruing from their investments.

The Net Profits of a firm remaining after interest upon capital and partnership salaries have been charged represent the additional income obtained by the partners by engaging in trade over and above the return which they would have received as investors on the one hand, and employees on the other. The liability of an investor may be limited to the amount he has staked in any one venture or company, while the liability attaching to a partner in a private business is unlimited. By charging partnership salaries and interest on Capital at reasonable rates before arriving at the net profit figure, the partners in a firm are able to ascertain whether their share in such net profits compensates them adequately for the risks and liabilities they have assumed.

Interest is frequently *charged* upon the sums withdrawn by partners, just as it is *allowed* upon the Capital standing to their credit. This practice is the more equitable method of accounting in cases where there are no stated dates or limits fixed for partners' drawings, or where such drawings are unequal in amount. In cases where interest is charged on drawings, inner columns are

provided in the partners' Current Accounts, as shown in the specimen account on p. 263, in order to record the interest chargeable. Theoretically, when each entry of interest is made, a Journal entry should be passed debiting the partners' Current Accounts and crediting Interest on Current Accounts. In practice, however, a Journal entry is made at the close of the year of the totals of the interest charged to the different partners, the aggregate amount of the entries being credited to Interest on Current Accounts.* Thus :—

		£	s.	d.	£	s.	d.
Sundries :— Dr.							
J. Jones, Current Account..............		25	10	6			
B. Brown, Do.		17	4	8			
R. Robinson, Do.		9	10	4			
To Interest on Current Accounts					52	5	6
For interest on partners' drawings for the year.							

The Interest on Current Accounts Account should be transferred to the Appropriation Section of the Profit and Loss Account at the end of the year. It is misleading to include such interest with the interest paid, or received, on trade transactions, loans or investments.

It has already been explained that the modern practice is to collect all partners' transactions with the firm in their Current Accounts. The following worked example illustrates the procedure.

Example.—Robert and John Smith are partners. Their respective capitals, on January 1, were :—Robert Smith £12,000; John Smith £10,000. The partners were entitled to 5 per cent. interest on capital, and were chargeable with 5 per cent. interest on drawings. John Smith was entitled to be credited at the close of the year with a partnership salary of £300 per annum. Profits were divisible as to two-thirds to Robert Smith and one-third to John Smith. The profits for the year ending December 31, *after* providing for interest and the partnership salary, amounted to £4,380. During the year, John Smith drew the following sums, viz.: May 30, £200; Aug. 27, £100; Oct. 19, £50; Oct. 26,

* In the somewhat rare cases where the partners of a firm have contributed the Capital equally, and take their periodical drawings in exactly the same proportion as they share the profits, there is obviously no urgent need to make any provision for interest either upon Capital or Drawings, except for the purpose of showing how the income derived from trading compares with the interest product which would arise from investing the same amount of capital in ordinary securities.

£300; Dec. 31, £100; and he also withdrew goods from the firm to the value of £98. Prepare John Smith's Capital and Current Accounts as on Dec. 31.

JOHN SMITH.

CURRENT ACCOUNT

Dr. **Cr.**

Date.	Particulars.	Folio.	Days.	Interest. £	s.	d.	Drawings. £	s.	d.	Date.	Particulars.	Folio.	£	s.	d.
19—										19—					
May 30	To Cash ...	3	214	5	17	3	200	0	0	Dec. 31	By Interest on Capital (£10,000)	J. 56	500	0	0
Aug. 27	,, Do.......	46	126	1	14	6	100	0	0	,, 31	,, Partnership Salary	J. 57	300	0	0
Oct. 19	,, Do.......	59	73	0	10	0	50	0	0	,, 31	,, Share of Profit (⅓rd)	P.L 56	1,460	0	0
,, 26	,, Do.......	61	66	2	14	3	300	0	0						
Dec. 31	,, Do.......	92	√				100	0	0						
,, 31	,, Interest	J. 56		£ 10	16	0	10	16	0						
,, 31	,, Goods	S.J. 56					98	0	0						
,, 31	,, Balance carried down ...	√					1,401	4	0						
							£ 2,260	0	0				£ 2,260	0	0
										19— Jan. 1	By balance brought down ...		1,401	4	0

JOHN SMITH.

CAPITAL ACCOUNT

Dr. **Cr.**

					Date	Particulars	£	s.	d.
					19—				
					Jan. 1	By Cash	10,000	0	0

If, in the above example, John Smith had been entitled to draw his partnership salary of £300 per annum *in cash* at stated intervals, no entry would appear in his Current Account. The periodical payments would be credited in the Cash Book as they occurred, and from thence would be posted direct to the debit of a "Partnership Salary Account," the total of which would be transferred to the

debit of Profit and Loss Account at the close of the year.

Examination experience suggests the advisability of emphasising the following points in this place :—

(1) When preparing the Profit and Loss Account of a partnership, it is always advisable to present the account in two sections. The first section should show clearly the total amount of the divisible net trading profit earned by the firm. This should be carried down to the second (the Appropriation) section and there divided between the partners after charging partnership adjustments (if any). If the account is prepared in this way, the net profit for the year is clearly shown *as a separate figure.* Many candidates close a partnership Profit and Loss Account as follows :—

PROFIT AND LOSS ACCOUNT

(Bad Form)

	£	s.	d.		£	s.	d.
To Interest on Capital	600	0	0	By Balance from Trading Account	1,200	10	6
,, Bad Debts	160	0	0				
,, Depreciation	120	0	0				
,, Partnership Salaries, etc., etc.	350	0	0				
,, John Smith	1,221	4	3				
,, Robert Brown	960	2	1				
,, William Robinson	789	4	2				
£	4,200	10	6	£	4,200	10	6

This method is not, of course, actually incorrect, but it is not in accordance with the usual practice. It makes it necessary to add together the individual shares of the partners in order to ascertain the total net profit for the year, and so wastes the time of those seeking this information.

A much better practice is to exclude from the first section of the Profit and Loss Account all partnership items such as interest on capital and drawings, partnership salaries, etc., and set them out in the second section, the balance of which is there divided. This method, set out below, has the advantage of showing the actual trading profit earned, apart from partnership adjustments, and also facilitates the preparation of income tax returns in which partners' salaries and interest are "added back" to arrive at the liability for assessment.

PROFIT AND LOSS ACCOUNT
(Good Form)

	£	s.	d.		£	s.	d.
To Rent and Rates	400	0	0	By Gross Profit brought down from Trading Account...	2,900	0	0
,, Salaries	600	0	0				
,, Office Expenses	500	0	0				
,, Bad Debts	100	0	0				
,, Depreciation ...	60	0	0				
,, Net Profit carried down......	1,240	0	0				
£	2,900	0	0	£	2,900	0	0
To Partnership salary, John Brown	400	0	0	By Net Profit brought down	1,240	0	0
,, Interest on Capital Accounts: John Brown £100, Peter Jones £200	300	0	0				
Balance of Profits: John Brown (⅔)......... 360, Peter Jones (⅓)......... 180	540	0	0				
£	1,240	0	0	£	1,240	0	0

(2) Strange as it may seem, many candidates make the serious mistake of *debiting partners' drawings to the Profit and Loss Account!* It is necessary, therefore, to warn students against this error of principle. The partners in a firm cannot know the amount of profit to which they will become entitled at the close of the year, and, usually, it is inconvenient for them to wait until the accounts for the year have been made up. Arrangements are therefore made by which each partner periodically withdraws specified sums on account of profits which it is assumed are being earned. Considered in this light, it is seen that partners' drawings are merely *payments on account of profits*, and in no sense a charge against profits. Indeed, if no profits are made, the amounts withdrawn by the partners during the year are debts due to the firm. In all cases they must be treated as debits against the Current Accounts of the individual partners, not charges against the firm's profits.

The subject of "Goodwill" is dealt with later on in this treatise, but it is so intimately associated with many questions of partnership accounting that it requires at least some brief consideration in this place, particularly in

the light of the relations which arise as between partners in regard to it.

Goodwill is frequently called an intangible asset, but it is none the less, in many cases, a very real one. It may be generally defined as the "benefit arising from connection and reputation," * and although it is not an Asset which a trader can take into the market and sell immediately, or upon which he can readily raise a loan from his bankers, the question of Goodwill, and the price to be paid for any share in it, frequently assumes important proportions in negotiations between the existing members of a firm, or the existing owners of an established "Goodwill," and proposed incoming partners. A prospective partner upon his becoming an actual partner acquires, by virtue of such partnership, the right to a proportionate share of the existing Goodwill, and to the profits derived from its use and possession, and it is only equitable that the former owners of the Asset should claim adequate compensation for surrendering a portion of these benefits. Upon the dissolution or liquidation of a partnership the sale of the Goodwill produces, in many cases, a sum of money which is available for division among the partners, and, in such cases, similar questions arise as to its equitable distribution.

A partner upon joining an existing firm usually pays to the former members a certain sum, known as a **Premium,** for his admission; this premium is, as far as the newcomer is concerned, an admission fee entitling him to a share of the Goodwill of the business and of the profits arising out of its possession. The new partner frequently pays this sum direct to the former partners as a matter entirely outside the business, and, in these cases, there is no occasion to record the transaction in the books of the new firm.

Example.—If A. B. (an incoming partner) pays to C. D., the former sole owner of the business, £1,000 by way of a premium for admission as a partner in C. D.'s business, and in addition brings in £500 in cash into the business as his capital, A. B.'s Capital Account only requires to be credited with the £500 placed in the coffers of the new firm, the £1,000 paid to C. D. being a private matter between A. B. and C. D. with which the records of the firm have no concern.

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* "Goodwill is nothing more than the *probability* that the old customers will resort to the old place."—LORD ELDON. This definition may require amplification in the case of certain modern businesses, but will serve at the present stage of the student's progress.

Occasionally payments made by an incoming partner to the existing members of a firm in respect of premium are passed through the firm's banking account for the sake of convenience, but they are not credited to the incoming partner as is the case with his capital contribution. It is the account of each recipient of the money, *i.e.* of each existing partner, which is credited with his share of the premium received, and the premium thus credited to him may be allowed to stand to his credit as additional capital or be withdrawn by him as may be arranged between the parties to the agreement. The main point to be remembered in this connection is that the incoming partner has no further interest in or control over the premium he pays for admission after having parted with it.

It is necessary for the student, in dealing with partnership accounts and the admission of new partners into an existing firm, always to bear in mind the essential difference which exists between sums paid by an incoming partner by way of *premium* for admission, and any contribution which may be made by him to the firm's existing *capital*. With the former amount the newcomer has little or no concern after having parted with it, since what he pays under this head becomes the absolute private property of the persons to whom it is paid. With the latter amount, however, he is permanently concerned, because it represents his share of the new firm's capital. Premiums paid by new partners are divided by the old partners in the same proportions in which they share profits, and *not* on the basis of their respective capitals. This procedure arises out of the fact that the premium paid for a share of the Goodwill is a compensation paid to existing partners for a share of future profits surrendered by them to the incomer, and requires to be divided according to the basis upon which profits are dealt with.

The principle explained above is exemplified in the following case :—

Example.—J. Roberts and O. Owen, trading as Roberts & Company, and possessing respectively capital amounting to £2,000 and £1,500, and sharing profits as to two-thirds to J. Roberts and as to one-third to O. Owen, decide to admit W. Brown as on December 31, 19—, as a partner. W. Brown is to bring in £1,000 as his capital, and is to pay £1,500 to the pre-existing dartners for his share of the Goodwill (*i.e.* by way of premium on admission), and the shares of profits as between the partners

are then to be as follows: J. Roberts ½, O. Owen and W. Brown ¼ each.

Assuming that these transactions have been duly carried out, and that the £2,500 has been paid by W. Brown into the firm's banking account, from which the old partners have withdrawn their proportionate shares of the payment for Goodwill, show these transactions in the new firm's books.

Students frequently get into difficulties when dealing with problems of this kind by opening a Goodwill Account. The above example is a case in point. The student must not allow the words "for his share of the Goodwill" to mislead him. There is no Goodwill Account in the books of the old firm. Nor need any such account be opened in the circumstances described in the example. W. Brown recognised the fact that a Goodwill was attached to this established business, although no such asset appeared in the books. He therefore paid £1,500 to the old partners as their absolute property for the privilege of allowing him a share in the assets of the firm including the Goodwill. This £1,500 need not be recorded in the books at all.

The £1,000 paid in by W. Brown as his capital is of quite a different nature, and must be credited to his Capital Account. The £1,500 paid in by him as premium for admission, if recorded in the books at all, would be credited as to two-thirds of it (£1,000) to J. Roberts, and as to the remaining one-third of it (£500) to O. Owen, the entries being passed through their respective Capital Accounts for the sake of convenience. The withdrawal of the £1,500, when effected, would be debited to the former partners' Capital Accounts in the ordinary way.

Dr. **J. ROBERTS, Capital Account** Cr.

		£	s.	d.			£	s.	d.
19—					19—				
Dec. 31	To Cash	1,000	0	0	Dec. 31	By Balance brought forward.........	2,000	0	0
„ 31	„ Balance carried down	2,000	0	0	„ 31	„ Cash, two-thirds of W. Brown's premium for admission	1,000	0	0
		£3,000	0	0			£3,000	0	0
					19—				
					Dec. 31	By Balance brought down	2,000	0	0

Dr. **O. OWEN, Capital Account** Cr.

		£	s.	d.			£	s.	d.
19— Dec. 31	To Cash	500	0	0	19— Dec. 31	By Balance brought forward ...	1,500	0	0
,, 31	,, Balance carried down	1,500	0	0	,, 31	,, Cash, one-third of W. Brown's premium for admission	500	0	0
	£	2,000	0	0		£	2,000	0	0
					19— Dec. 31	By Balance brought down	1,500	0	0

Dr. **W. BROWN, Capital Account** Cr.

							£	s.	d.
					19— Dec. 31	By Cash (capital paid in on this date).........	1,000	0	0
						£	1,000	0	0

Dr. **BANK** Cr.

			£	s.	d.			£	s.	d.
19— Dec. 31	To *W. Brown, Cap. A/c*, Capital brought in	£ 1,000				19— Dec. 31	By *J. Roberts, Capital Account*, proportion of W. Brown's premium for admission withdrawn	1,000	0	0
,, 31	,, *J. Roberts, Cap. A/c*, two-thirds of W. Brown's premium for admission	1,000				,, 31	,, *O. Owen, Capital Account*, proportion of W. Brown's premium for admission withdrawn	50	0	0
,, 31	,, *O. Owen, Cap. A/c*, one-third of W. Brown's premium for admission	500	2,500	0	0					

Upon the admission of a new partner, in cases where it is desired to give the former partners some compensation for such admission without obliging the incomer to pay the many cash premium, it is frequently arranged that a "Goodwill Account," *i.e.* an "Asset" Account, shall be opened in the books of the new firm for an agreed sum,

the corresponding credit for which shall be placed to the old partners' respective Capital Accounts. In this way the Capital Accounts of the old partners are augmented by a certain sum, by way of compensation for parting with a share of the Goodwill. Furthermore, since the new partner obtains, in exchange for any cash capital he may bring in, a proportionate part only of the Assets (including the Goodwill now brought into the books at the agreed figure), this plan obviously operates to his detriment and for the benefit of the previous partners.

Example.—A. B., trading as A. B. & Co. with a capital of £1,000, represented by cash £500 and stock £500, and having no liabilities, decides to admit C. D. as a partner as on January 1, 19—; the latter is to bring in £1,000 as cash capital, and a "Goodwill Account" is to be raised on the books for £1,500, which is to be credited to A. B.

Prior to C. D.'s admission a Journal entry is passed through the books, debiting Goodwill Account with £1,500 and crediting a like sum to A. B.'s Capital Account; the latter account is thereby raised to £2,500. C. D.'s £1,000, when paid into the bank, is credited to his Capital Account in the ordinary way.

The effect of these transactions, and the position of A. B., before and after their occurrence, will be gathered from the subjoined Balance Sheets (see p. 271).

It will be noted that whereas A. B. previously had a capital of £1,000, represented entirely by tangible assets, he possesses, after the admission of C. D., a capital of £2,500, represented by his share in the Assets of the new firm. The latter amount to £3,500, including the "Goodwill" amounting to £1,500, and this improvement in A. B.'s position has been effected without any cash contribution whatever on his part.

A partnership may be dissolved by mutual consent of all the partners. Moreover, unless there is a partnership agreement to the contrary, the partnership will be automatically dissolved at the expiration of the term fixed, or the termination of the venture or undertaking for which it was formed. If no time is fixed for the duration of the partnership, notice by any partner is sufficient to dissolve it (*Partnership Act*, 1890 Sec. 32). It is also dissolved by the death or bankruptcy of a partner, or by his suffering his share of the partnership property to be charged for his separate debt, unless there is an agreement to the contrary. In the last-mentioned case the partnership may be dissolved at the option of the other partners (Sec. 33). If the partnership becomes

illegal, it is automatically dissolved in spite of any agreement (Sec. 34).

A. B. & CO.'S BALANCE SHEET, as on December 31, 19— (prior to the admission of C. D.)

LIABILITIES.	£	s.	d.	ASSETS.	£	s.	d.
A. B., Capital Account	1,000	0	0	Cash	500	0	0
				Stock	500	0	0
£	1,000	0	0	£	1,000	0	0

A. B. & CO.'S BALANCE SHEET, as on January 1, 19— (after the admission of C. D.)

LIABILITIES.	£	s.	d.	ASSETS.	£	s.	d.
A. B., Capital Account............	2,500	0	0	Cash	1,500	0	0
C. D., do. do.	1,000	0	0	Stock	500	0	0
				Goodwill	1,500	0	0
£	3,500	0	0	£	3,500	0	0

On the application of a partner, the Court may order dissolution when a partner is found lunatic or of permanently unsound mind; or permanently incapable of performing his part of the partnership contract; or is

guilty of conduct prejudicial to the carrying on of the business; or wilfully or consistently commits a breach of the partnership agreement, or so conducts himself that it is not reasonably practicable for the other partners to continue in partnership with him; or when the partnership business can only be carried on at a loss; or the Court considers it just and equitable to dissolve the partnership (Sec. 35).

For various reasons, therefore, partnerships are sometimes dissolved and liquidated, all the Assets of the firm being realized, and all the creditors paid off; a very similar process is necessary when a business belonging to a private partnership is sold to a limited company formed for the purpose of acquiring the business.

In the event of a partnership dissolution, the *Partnership Act*, 1890, provides that the Assets, upon realisation, shall be applied in the following order:—

1. In discharge of the debts due to outside creditors.
2. In repayment of *loans* from partners.
3. In repayment of partners' *capital*.
4. The surplus (if any) to be distributed in the same proportion in which profits are divided.

If the Assets should prove to be insufficient to repay claims 1 to 3 as set out above, it is obvious that a loss must have resulted upon realisation, and that such loss must be made good in order that the claims of the partners *inter se* may be adjusted. In the event of bankruptcy it is only the debts due to the outside creditors which are allowed to rank as claims against the Assets of the firm, and one type of creditor's claim is deferred to the rest of the creditors' claims, viz. loans advanced to a firm the interest upon which varies with the profits made, or in return for which a share of profits is taken in lieu of interest. Upon a loan of this kind no dividend can be claimed until all the other creditors of the firm have been paid in full.

If the whole of the Assets are being sold for a single consideration, or the Assets are being sold in sections, so that it is impossible to arrive at the profit or loss on each one, then all the Assets, except cash, belonging to the firm are transferred to an account styled a **Realisation Account.** To this account the various amounts of cash

realised by the sale of the Assets are credited, and when all the latter have been disposed of there usually remains a balance either to the debit or to the credit of the Realisation Account, representing the Loss or the Surplus, as the case may be, arising out of the realisation.

If the Assets are being realised one at a time, or in instalments, the cash received is credited to the individual Asset sold. Any profit or loss ultimately arising on each Asset is transferred to a **Profit and Loss on Realisation Account,** which then shows the aggregate Profit or Loss arising out of the realisation.

The Profit (surplus) or Loss is divided among the partners in the ordinary way, according to the proportions in which they share profits or losses, unless, of course, any other basis of division is laid down in the Articles of Partnership. The payment of the creditors' claims is recorded by crediting Cash with all sums so disbursed, and debiting the individual creditors' accounts in the customary manner. Any discounts received must be credited to the Realisation, or to the Profit and Loss on Realisation, Account, as the case may be.

After these preliminary steps have been carried out the balance of Cash in hand should tally exactly with the total of the partners' Capital Accounts after the respective share of Profit or Loss on realisation (as the case may be) has been transferred to the Capital Account of each partner. If the loss on realisation proves to be heavy it sometimes happens that the Capital Accounts of one or more partners disclose a debit balance owing to the fact that the share of the loss on Realisation Account chargeable to them is greater than the previous credit balance of such partner's Capital Account. This unfortunate result indicates that the partners concerned must contribute to the firm's banking account a sum sufficient to restore the equilibrium of their Capital Accounts. After this adjustment has been effected the available cash balance will exactly equal the total amounts standing to the credit of those partners whose Capital Accounts show a balance on the right (*i.e.* the credit) side.

These principles are illustrated in the subjoined Example :—

P. Quaritch and R. Smith, trading in partnership as Quaritch & Smith, agree to dissolve the same and to liquidate their business as on December 31, 19—.

Their Balance Sheet, as at that date, was as under :—

MESSRS. QUARITCH & SMITH.

BALANCE SHEET, December 31, 19—

LIABILITIES.	£	s.	d.	ASSETS.	£	s.	d.
P. Quaritch, Capital Account	2,000	0	0	Cash	200	0	0
R. Smith, Capital Account	500	0	0	Sundry Assets	3,300	0	0
Sundry Creditors	1,000	0	0				
	£3,500	0	0		£3,500	0	0

Profits are shared equally between the partners. The " Sundry Assets " upon being sold as a whole realised only £2,000 in cash. The liquidation expenses amounted to £100 (paid in cash). Show the result of the liquidation, the same being concluded on February 1, following; any deficiency on either partner's Capital Account is to be paid in in cash, the balance of cash then available being distributed.

Dr. P. QUARITCH, Capital Account Cr.

19—			£	s.	d.	19—			£	s.	d.
Feb. 1	To half-share of Loss on Realisation		700	0	0	Dec. 31	By Balance brought forward		2,000	0	0
,, 1	,, Cash		1,300	0	0						
		£	2,000	0	0			£	2,000	0	0

Dr. R. SMITH, Capital Account Cr.

19—			£	s.	d.	19—			£	s.	d.
Feb. 1	To half-share of Loss on Realisation		700	0	0	Dec. 31	By Balance brought forward		500	0	0
						19— Feb. 1	,, Cash, deficiency on Capital Account paid in		200	0	0
		£	700	0	0			£	700	0	0

Dr. SUNDRY ASSETS Cr.

19—			£	s.	d.	19—			£	s.	d.
Dec. 31	To Balance brought forward		3,300	0	0	Jan. 1	By Transfer to Realisation Account		3,300	0	0
		£	3,300	0	0			£	3,300	0	0

Dr. REALISATION ACCOUNT Cr.

		£	s.	d.			£	s.	d.
19— Jan. 1	To Sundry Assets	3,300	0	0	19— Feb. 1	By Cash, proceeds of sale of Assets ...	2,000	0	0
Feb. 1	,, Cash, Liquidation Expenses	100	0	0		,, Loss on Realisation carried down ...	1,400	0	0
		£3,400	0	0			£3,400	0	0
19— Feb. 1	To Loss brought down	1,400	0	0	19— Feb. 1	By Transfer to Capital Accounts equally :—			
						P. Quaritch	700	0	0
						R. Smith ...	700	0	0
		£1,400	0	0			£1,400	0	0

Dr. SUNDRY CREDITORS Cr.

		£	s.	d.			£	s.	d.
19— Feb. 1	To Cash	1,000	0	0	19— Dec. 31	By Balance brought forward	1,000	0	0
		£1,000	0	0			£1,000	0	0

Dr. CASH Cr.

		£	s.	d.			£	s.	d
19— Dec. 31	To Balance ...	200	0	0	19— Feb. 1	By Sundry Creditors ...	1,000	0	0
19— Feb. 1	,, Realisation Account, Proceeds of Assets	2,000	0	0	,, 1	,, Realisation Account, Liquidation Expenses ...	100	0	0
,, 1	,, R. Smith's Capital Account, deficiency paid in	200	0	0	,, 1	,, P. Quaritch's Capital Account, balance due to him	1,300	0	0
		£2,400	0	0			£2,400	0	0

It will be noted that, in the above example, the loss and expenses arising out of the liquidation were heavy, and that, after the realisation, R. Smith's Capital Account showed a debit balance, a deficiency of £200 being apparent, while the other partner's Capital Account showed a credit balance of £1,300. The cash remaining on hand amounted to £1,100. Upon R. Smith paying in the deficiency of £200 due upon his Capital Account, the available cash balance was raised to £1,300, which amount was duly paid to P. Quaritch,

being the balance due to him as shown by his Capital Account.

If, as sometimes occurs, some of the partners in a dissolving firm take over certain specified Assets at an agreed valuation, instead of taking the same sums in cash, no difference in principle arises in the method of accounting. The Assets taken over are debited to the Capital Accounts of the partners concerned at the agreed figure, just as though cash had passed in the ordinary way.

In the event of a partner being insolvent and consequently unable to bring in the amount of cash required to make good a debit balance on his Capital Account, the capital loss so arising is shared between the solvent partners in the ratio of their *Capital* Accounts, and *not* as they share profits. This procedure is known as the rule in *Garner* v. *Murray*. But the student need not at this stage be worried unduly by the somewhat involved reasoning which led to this rule being made law. It is sufficient for him to regard the loss as an unusual one which does not commonly arise in the course of partnership dissolutions, and has, therefore, to be treated in an unusual way. Should the advanced student desire to study the ruling quoted above, and its effect upon dissolution accounts, he is referred to *Higher Book-Keeping and Accounts*.

EXERCISES.

15A.

1. Define a partnership and indicate its principle and most usual characteristics.
2. Compare the position of a partner in a private firm with that of a shareholder in a limited liability company.
3. Explain the custom of allowing interest on the Capital Accounts of partners.
4. What numerical limits are legally assigned as regards the partners in a firm?
5. Discuss the question of Goodwill in connection with partnerships.
6. When a new partner is admitted into an existing firm he frequently contributes capital, and pays, in addition, a premium to the previous partners for his admission. Discuss the meaning of these two contributions and show how their method of treatment in the books differs.
7. Explain the terms

Current Account,
Realisation Account,

in relation to partnerships.

8. A. and B. are in partnership sharing profits equally, and decide to admit C. as an equal partner with themselves; C. however is unable to contribute any money, either as capital or by way of premium for admission; nor will the financial condition of the business permit immediate cash withdrawals by A. and B. By what arrangement can A. and B. be benefited and C. be penalised out of future profits without upsetting the arrangement that A., B. and C. are to share profits equally?

9. Upon the dissolution of a partnership how are the assets of the firm applied under the *Partnership Act*, 1890?

10. What are the provisions of the *Partnership Act*, 1890, as regards—

1. Interest on partners' capital,
2. Interest on loans by partners to the firm,
3. Partners' salaries?

15B.

Henry and Robert James are trading in partnership as James Bros., Henry James's capital on January 1, 19—, being £10,000, and Robert James's capital on the same date, £400.

The partnership deed provides (1) that proper accounts are to be prepared half-yearly; (2) that interest on capital is to be allowed every half-year upon the balance shown by each partner's Capital Account at the commencement of the half-year, at 5 per cent. per annum; (3) that Robert James is to be entitled to a salary of £200 per annum, payable half-yearly out of profits; (4) that the divisible profits are to be shared between the partners in the proportion of three-quarters to Henry James and one-quarter to Robert James.

The profits for the half-year ended June 30, 19—, before providing for the above adjustments, amounted to £950.

Robert James withdrew £180 on June 30, 19—; apart from this no partners' drawings have taken place.

Show the partners' accounts as they would appear in the firm's Ledger.

15C.

Thomas Inwood, trading under the name of Inwood & Co., finds that on December 31, 19—, his books show the following position:—

	£	s.	d.		£	s.
Sundry Creditors	2,000	0	0	Cash at the Bank	500	0
T. Inwood, Capital Account	2,000	0	0	Other Assets	3,500	0
	£4,000	0	0		£4,000	0

He decides, as at the above date, to admit Hubert Boorman as partner upon the following terms. H. Boorman is to pay into the firm's banking account £2,000, of which £500 is to be his capital, and £1,500 in payment for his share of the Goodwill of the business. T. Inwood is to draw out £500 of this £1,500 and to leave the balance in the business as a loan to the new firm for three years at 6 per cent. per annum.

H. Boorman is to receive a salary of £100 per annum, payable out of profits. Partners' Capital Accounts are to bear interest at 5 per cent. per annum.

Profits are to be divided as to two-thirds to T. Inwood and as to one-third to H. Boorman.

Assuming that the foregoing transactions were duly carried out on January 1, 19—, that no partners' drawings took place during the year, and that the profits for the following year amounted to £1,800 before allowing for any of the adjustments set forth above, you are requested to prepare the partners' accounts.

15D.

H. Edwards and L. Steel are trading in partnership under the firm name of Edwards & Steel, profits being shared as to two-thirds to H. Edwards, and as to one-third to L. Steel, their Balance Sheet as on December 31, 19—, being as follows—

LIABILITIES.	£	s.	d.	ASSETS.	£	s.	d.
H. Edwards, Capital Account	1,000	0	0	Cash	100	0	0
L. Steel, Capital Account	900	0	0	Sundry Assets	13,800	0	0
Sundry Creditors ...	12,000	0	0				
	£13,900	0	0		£13,900	0	0

As on January 1, 19—, they admit B. Mervyn as a partner in the business on the following terms—

(*a*) Profits are to be divided as to three-sixths to H. Edwards, as to two-sixths to L. Steel, and as to one-sixth to B. Mervyn.

(*b*) B. Mervyn is to bring in £500 in cash as his capital.

(*c*) A Goodwill Account is to be raised on the books under date January 1, 19—, for £900; this sum is to be credited to the previous partners in the same proportion in which they shared profits prior to B. Mervyn's admission.

(*d*) H. Edwards is to be at liberty to withdraw £200 of his capital on January 1, 19—.

(*e*) B. Mervyn is to have a salary of £200 a year out of profits.

(*f*) Interest is to be allowed on partners' Capital Accounts at the rate of 5 per cent. per annum; no interest is to be charged on drawings, each partner is to be at liberty to withdraw £20 a month in anticipation of profits, or (in the case of B. Mervyn) in anticipation of profits and salary.

Assume that the foregoing transactions relating to the change in the constitution of the firm have been duly carried out, and that each partner has regularly drawn £20 at the end of each month during the following year. The profits for the year, before making any allowance for B. Mervyn's salary, or for interest on partners' capital, amounted to £1,255. Show the partners' Capital and Current Accounts as they would appear in the firm's Ledger at the close of the year.

15E.

A. Brown and Robert Hicks, trading in partnership, decide, as on December 31, 19—, to dissolve partnership and liquidate the business. Their Balance Sheet as at that date was as under—

LIABILITIES.	£	s.	d.	ASSETS.	£	s.	d.
Capital Account, A. Brown	1,000	0	0	Cash	500	0	0
Capital Account, R. Hicks	850	0	0	Other Assets	2,850	0	0
Sundry Creditors ...	2,000	0	0	Goodwill.................	500	0	0
	£3,850	0	0		£3,850	0	0

Profits are shared between the two partners in the proportion of three-fifths to A. Brown and two-fifths to R. Hicks.

The "Other Assets, £2,850," realised only £1,850, and the Goodwill was disposed of for £100. The expenses of the liquidation amounted to £50.

Show the process of realisation as it would appear in the firm's Ledger, and the position of the two partners as regards the disposal of the balance of cash remaining after satisfying the firm's liabilities.

Answers—

15B. Credit Balances of Capital Accounts, June 30, 19—: H. James, £10,000; R. James, £400. Credit Balances of Current Accounts: H. James, £692 10*s.* 0*d.*; R. James, £77 10*s.* 0*d.*

15C. Credit Balances of Capital Accounts: T. Inwood, £2,000; H. Boorman, £500. T. Inwood, Loan Account, £1,000. Credit Balances of Current Accounts: T. Inwood, £1,170; H. Boorman, £630.

15D. Credit Balances of Capital Accounts: H. Edwards, £1,400; L. Steel, £1,200; B. Mervyn, £500. Credit Balances of Current Accounts: H. Edwards, £280; L. Steel, £120; B. Mervyn, £135.

15E. Cash Balance at close of liquidation, £400. Divisible—A. Brown, £130; R. Hicks, £270.

CHAPTER XVI

JOINT STOCK COMPANIES AND THEIR ACCOUNTS

THE accounts of Joint Stock Companies are, of course, as regards their *trading* aspect, precisely the same as the accounts of a partnership, or those of a sole trader, engaged in a similar business; in short, the usual *commercial* books are precisely the same. But certain special books must be kept by companies to record the position of the proprietors (Shareholders) *vis-à-vis* the company, and these books require detailed explanation.

An **Incorporated Company** consists of a body of persons united for certain definite purposes, under royal or legislative sanction, in such a manner that they form a "corporate body," *i.e.* a fictitious person recognised by the law as a legal entity capable of holding property, of suing and being sued, and of incurring obligations in its own name.

Companies may be incorporated by :—

(a) *Royal Charter.* A rare method in these days, examples of which are :—the Hudson's Bay Company; the British South Africa Company.

(b) *Special Act of Parliament.* Examples of which are :—The Bank of England, and the British Railways.

(c) *Registration under the Companies Act,* 1948. The vast majority of companies come into existence by this method. In these cases a formal document, called a **Memorandum of Association,** is registered with a Government official known as the "Registrar of Companies" appointed by the Board of Trade under the *Companies Act,* 1948.

Limited Companies, as they are generally called, are all governed by the provisions of the Companies Act, 1948. Until June 1948 the principal Act was the Com-

panies Act, 1929. In 1947 an important amending act, known as the Companies Act, 1947, was passed : a few of its provisions (principally those relating to prospectuses) were brought into force at once but the majority of the sections were not to become operative till 1st July, 1948. However, before that date the whole of company law, including all the provisions of the Act of 1929 so far as they were not varied by the Act of 1947, together with all the provisions of the Act of 1947, was brought together in a single consolidating Act, the Companies Act, 1948. This supersedes the Act of 1947 and is in full force as regards the whole of its provisions as from 1st July, 1948.

The more important provisions of the new Act were those relating to the prospectus (see p. 295) and the form of presentation to the members of a company's final accounts. The provisions governing the latter, in particular, are of very great importance and will be described in detail in this chapter. The general effect of the new provisions, including those dealing with the form of the accounts, was to give shareholders the right to receive more information regarding the affairs of the company and somewhat more control over the directors. In the past, while some boards of directors had adopted a policy of giving shareholders reasonably full and detailed information many others (probably the majority) had given the minimum information required by the Act of 1929 and it was possible for the Accounts, while strictly complying with that Act, both to conceal various matters which were of legitimate interest to the shareholders and in many cases to give a general view of the position which might be seriously misleading. Such concealment was not, except in rare cases, with a view to deceive the shareholders but was generally justified by a fear of giving information to the company's competitors of which they might possibly be able to take advantage and use to the company's detriment. The view now taken is that such fears were often exaggerated and accordingly the Acts of 1947 and 1948 considerably reduced the number of matters in respect of which concealment is permissible.

All references in this work to sections of the Companies Act refer to the Act of 1948.

Companies possess many advantages not enjoyed by the private trader or firm, the chief of which is the principle of "limited liability." Incorporation also facilitates the raising of fresh capital, and expedites

extensions and amalgamations; it increases borrowing powers, and permits the company to enable employees easily to acquire an interest in the business, and the death or bankruptcy of the members of the company does not affect the company's existence.

If a company be registered with a memorandum of association containing a clause stating that the "liability of the members is limited," no member of the company is liable to be called upon to contribute any sum beyond the face value of the actual shares he has agreed to take, *i.e.* the capital he has undertaken to contribute. When he has paid the amount due upon the shares subscribed for by him, he is entirely relieved from the possibility of any further claim to contribute towards the company's liabilities. If the company should ultimately fail he may, of course, lose the money he has invested, but he cannot be made liable to contribute anything beyond that sum, however involved in debt the company may have become.

There are three kinds of Joint Stock Companies, viz.:

(*a*) Companies limited by *shares*, *i.e.* those in which the liability of the members is limited to the nominal value of the shares they have agreed to take.

(*b*) Companies limited by *guarantee*, *i.e.* those in which the liability of the members is limited to the amount which each undertakes to guarantee in the event of liquidation.

(*c*) Companies the liability of whose members is *unlimited*. Classes (*b*) and (*c*) are rare. They are quite unsuited for commercial undertakings and will not be further considered in this treatise.

The *Companies Act*, 1948 (SS. 429 and 434), enacts that no partnership of more than *ten* persons shall be formed to carry on the business of banking, nor shall any partnership of more than *twenty* persons be formed to carry on any other business having the acquisition of gain as its object, unless it be registered as a company. Mining companies within the stannaries, a form of company much favoured in Cornwall, and companies working under letters patent, or a special Act of Parliament, are exempt from the above section.

In this chapter, unless the context states otherwise, only companies registered under the *Companies Act*, 1948, with limited liability, will be dealt with.

Any *seven* or more persons may combine to form and register a company under the *Companies Act*; and in the case of a special class of limited companies styled "Private Companies" *two* persons are sufficient for the purposes of incorporation.

The **Memorandum of Association** is the document wherein the persons desiring to form a company state—

(1) The name of the company with "Limited" as the last word of the name.
(2) The domicile of the company, *i.e.* whether the registered office of the company is to be situate in England or Scotland.
(3) The objects of the company, *i.e.* the purpose for which it is formed, and the powers taken to enable it to carry out that purpose.
(4) That the liability of the members is limited.
(5) The amount of share capital with which the company proposes to be registered and the division thereof into shares of a fixed amount.
(6) The association clause, which reads:

"We, the several persons whose names and addresses are subscribed, are desirous of being formed into a company, in pursuance of this memorandum of association, and we respectively agree to take the number of shares in the capital of the company set opposite our respective names."

The subscribers cannot take less than one share each, and their signatures must be witnessed.

Every limited company must also prepare **Articles of Association,** which are the bye-laws regulating the internal management of the company, unless it is prepared to abide by the regulations contained in the model set of articles contained in the First Schedule to the *Companies Act*, 1948, and known as **Table A.** The Act states that Table A shall apply to every company limited by shares, unless it registers special articles of its own, and that it shall also apply where the special articles do not exclude or modify the provisions of Table A.

Table A is in two parts. Part I comprises "Regulations for Management of a Company limited by shares, not being a Private Company," *i.e.* for a "Public" Company, while Part II contains the corresponding regulations for a Private Company. The two sets are the same except that two of the regulations in Part I are excluded from Part II and certain additional regulations *must* be adopted by a Private Company (see below).

A Private Company *must* register special articles, since the Act defines a Private Company (Sec. 28) as one which by its Articles of Association—

(*a*) Restricts the right to transfer its shares;
(*b*) Limits the number of its members to fifty, not including persons who are in the employment of the company and persons who, having been formerly in the employment of the company, were while in that employment, and have continued since the determination of that employment to be, members of the company; and
(*c*) Prohibits any invitation to the public to subscribe for any shares or debentures of the company.

Where special articles are filed they should also exclude any irrelevant clauses of Table A, otherwise Table A can be left to apply.

Any company which has not fulfilled the requirements applicable to Private Companies, is known as **a Public Company.**

The articles of every company should contain provisions embracing the following matters, which Table A covers :—

(1) Rules for the issue of shares, variation of the rights of members, issue of share certificates, etc.
(2) How far the company is to have a lien over shares (*i.e.* a right exercisable in certain prescribed circumstances to sell the shares in order to realise moneys owing on such shares to the company).
(3) How and when calls are to be made on the members in respect of moneys unpaid on the shares, and whether and at what rates

interest shall be payable on calls in arrear or on moneys accepted by the company in advance of calls.

(4) Regulations governing the transfer and transmission of shares on the death or bankruptcy of the holders.

(5) Provision for forfeiting shares where calls are unpaid.

(6) Regulations to govern alterations of capital.

(7) Provisions for holding meetings of the members, and giving notice of such meetings, and for regulating the proceedings thereat.

(8) Rules defining the rights of members to vote at meetings, and the number of votes to which each member is entitled.

(9) Regulations governing the rights as members of corporations acting by representatives at meetings; also

(10) The number and mode of appointment of the first and subsequent directors, their powers, remuneration and duties, when they shall be disqualified from acting, the rotation for retirement, and regulations for proceedings at directors' meetings, and whether or not they must hold shares to qualify them to act.

(11) Regulations governing the use of the seal of the company.

(12) Provisions regulating the declaration of dividends and the creation of reserves.

(13) Regulations for keeping accounts and for audit.

(14) The mode, time, etc. of sending notices to members, who shall be entitled to notices, etc.

In order to incorporate the company, there must be delivered to the Registrar of Companies at Somerset House, London, or at Exchequer Chambers, Edinburgh (according to whether the registered office is to be situate in England or Scotland) the following documents for registration :—

(1) Memorandum of Association.

(2) Articles of Association (unless, in the case of a Public company, Table A is to be employed). These must be printed, divided into numbered paragraphs and signed by the subscribers to the memorandum.

(3) A statement of the authorised capital as mentioned in the memorandum.

(4) A statutory declaration (sworn before a commissioner for oaths) by a person named in the articles as director or secretary of the company, or by a solicitor engaged in the formation of the company, that all the requirements of the Act have been complied with.

(5) A list of the persons who have consented to be directors (see p. 294) of the company.

(6) The written consent of such persons to act as directors.

(7) If the articles require the directors to hold shares as a qualification, a written undertaking by each director to take from the company and pay for his qualification shares, unless he has signed the memorandum for a number of shares not less than his qualification.

Documents (5), (6) and (7) are not required from a private company.

When the Registrar has examined the documents, certain stamp duties are payable, in particular, 10*s*. per cent. capital duty on the authorised capital, and, provided everything is in order, on the second official day thereafter, the company receives its **Certificate of Incorporation,** which is its birth certificate. The company is then in the eyes of the law a "person" capable of holding lands, and of contracting, etc., exactly as a private person is able to do. The company has a legal existence distinct from that of its members; and these members (shareholders) may contract with the company just as they can contract with one another. Moreover, an incorporated company can only be brought to an end by a legal process known as "winding up" or "liquidation," for which special regulations are contained in the Act.

Within fourteen days of the incorporation of the company, there must be delivered to the Registrar of Companies for registration a notice of the address of the registered office of the company, at which the name of the company must appear in legible letters.

Private companies are frequently met with in practice,

and afford a great convenience in the case of "family businesses," enabling a proprietor, whose capital is locked up in his business, to divide his estate (either during his lifetime or in his will) amongst his children or others without disturbing the financial arrangements of the business, while at the same time limiting the liability of those to whom a share in the business is given.

The Act of 1948 in effect divides private companies into two distinct classes. No private company need hold a "Statutory Meeting," nor need it have two (or more) directors. If, however, there is only one director that director cannot also act as secretary (S. 178). In order, however, to have the privilege (formerly enjoyed by *all* private companies) of not being required to file with the Annual Return a copy of the last audited balance sheet, it must now be an "*exempt private company.*" A private company claiming this exemption must file with the annual return a certificate that certain conditions have been complied with, the conditions being that (1) no body corporate holds any of the company's shares or debentures, and (2) no person other than the holder has any interest in any of them (there are certain exceptions to both these conditions, *e.g.* as to (1) in the case of a banking or finance company and as to (2) in the case of an executor or a trustee of a family settlement). The main reason for the change is that it oftens happens at the present day that a public company holds a substantial interest in a private company and in such a case the filing of the balance sheet is means of affording proper information regarding the position to a member of the public company, who indirectly has an interest in the private company.

It very often happens that the capital of a private company is held almost entirely by one individual, or perhaps distributed between members of his family. Such companies will of course, unless there are exceptional circumstances, be "exempt."

As already stated, the memorandum of association of every company limited by shares must contain a statement of the amount of the company's capital, coupled with a note of the number of separate fractions or Shares into which such capital is divided; *e.g.* "the company's capital shall be £10,000 divided into 10,000 ordinary shares of one pound each." The figure so fixed is in reality nothing more than the *amount of*

capital which the company at its inception takes power to issue, and is called the **Authorised Capital**; the *Companies Act* requires the amount of the Authorised Capital to be stated in the memorandum of association, partly, doubtless, because a stamp duty based upon the amount of the "Authorised" Capital is payable upon registration. Authorised Capital is also called **Nominal** or **Registered Capital.**

Although a company takes power in its memorandum of association to issue a certain sum of capital or a certain number of shares, it does not follow that it is always either expedient or possible to issue at once the whole of such capital. Indeed, it frequently happens that a public issue of shares is not wholly taken up by investors, the balance of the shares offered in such cases remaining unissued. In many cases therefore the amount of a company's Authorised Capital has no direct connection with the amount of its liability to its shareholders for capital contributions.

The nominal amount of capital which, at any given time, has been taken up by the shareholders is called the **Issued** or **Subscribed** capital. The amount of a company's Subscribed Capital therefore represents the total amount which its members have agreed to contribute.

In addition to the fact that it will be frequently found that the whole of a company's shares have not been issued, or, if issued, have not been taken up, it is a very common occurrence to find that, upon those shares which have actually been issued, a portion only of the face value has been paid into the company's coffers. A company is not compelled, unless it requires the money, to call upon the holders of its shares to pay up at the outset the whole of the sum they have contracted to contribute; periodical **Calls,*** as they are termed, can be made of one-half, one-quarter, or whatever other proportion is deemed advisable, of the nominal amount of each share; further calls upon the company's members can be made, as and when needed, until the whole of the face value of the issued shares has been called and paid up.

The total amount actually contributed in cash by the

* The Articles of Association may limit the amount of calls or proscribe a minimum interval between consecutive calls. Under Table A these limits are respectively one fourth of the nominal value of the share and one month (Regulation 15 under the 1948 Act: Clause 11 under the 1929 Act).

shareholders at any particular date is called the **Paid-up Capital**; this amount may obviously differ both from the Authorised Capital and from the Subscribed Capital. Thus the Authorised Capital of a company may amount to £10,000, divided into 10,000 shares of £1 each; the Subscribed Capital may consist of 5,000 shares of £1 each, *i.e.* £5,000; the Paid-up Capital may represent 10*s.* per share on each of the 5,000 £1 shares subscribed, *i.e.* £2,500. The Paid-up Capital of a company therefore is that amount of the **Called-up Capital** which has actually been paid by its members.

Companies frequently issue more than one type of share, the various classes issued possessing various priorities among themselves, either as to Capital, or Dividend rights, or both. In this connection the following definitions may prove helpful, although, as between different companies, shares of the same designation may possess widely different rights.

Preference Shares are shares possessing some preferential rights over the other classes of shares and usually rank first, both as to dividend and return of capital in case of liquidation. They may carry either or both of these rights. If both, then the fixed preferential dividend must be paid before the other classes of shares can participate in the profits, and, in the event of liquidation, the preference shares carry the right to prior payment before the other classes of shares, should funds be available after all outside debts have been paid.

Most Preference Shares are also described as **Cumulative,** which implies that the arrears of any fixed dividends due thereon but not paid in any one or more years (owing to the fact that insufficient profits were made out of which to pay them) are carried forward to later years (*i.e.* **Accumulated**), until sufficient profits are available out of which to satisfy them. If a Preference Share is described as **Simple** or **Non-cumulative,** it indicates that each trading period is considered, for the purpose of paying dividends on the Preference Shares, as a matter apart; and that unpaid arrears of dividend are not carried forward to future years, and cannot be subsequently claimed.*

* The student must not, however, infer from the above that the holders of Preference Shares are *creditors* in the ordinary sense for any dividends which may be in arrear upon their Cumulative Preference Shares. They do not become active

Participating Preference Shares are shares carrying a right to participate in the surplus profits after payment of the fixed dividend to which they are entitled, *e.g.* a fixed dividend of 6 per cent. plus 25 per cent. of any remaining amounts paid by way of dividend. The amount of participation may be limited (*e.g.* there might be a maximum participating dividend of (say) 2% in addition to the fixed preferential dividend) or unlimited. There may also be participating rights as to surplus assets in the event of liquidation.

Redeemable Preference Shares are a class of shares authorised by S. 58. They differ from other classes of Preference Shares in that, subject to the provisions of the Act and of course to the terms of issue the company has power to redeem them. No such shares can be redeemed except out of profits available for dividend, or out of the proceeds of a fresh issue of shares made for the purpose, nor can they be redeemed unless they are fully paid.

Ordinary Shares are a class of shares entitled, as a general rule, to the whole of the profits made by the company after the fixed dividends payable on the Preference Shares have been duly discharged.

Shares of the "Ordinary" class have no fixed rights as to dividends, neither have they any claim for priority of payment in case of liquidation. To counterbalance the absence of these advantages they are usually entitled to the larger share of any profits made should the Company prove successful. Sometimes **Preferred Ordinary Shares** are issued which rank for a fixed dividend after the Preference Shares but before the Ordinary Shares participate.

Special classes of shares, frequently taking a deferred interest in the profits quite disproportionate to their

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claimants until the company earns sufficient profits out of which to meet the arrears of dividend and dividends have been formally declared. If no dividends have been declared, there is no debt; and unless the Articles compel declaration of dividends, a company need not declare them. The Preference shareholder's right is thus merely the right to the first dividends that *are* declared. For this reason the amount of Preference dividend which may be outstanding at any time is not passed through the accounts. It is, however, obligatory to place a note on the balance sheet stating the gross amount of such arrears and the period during which they have accumulated (Schedule VIII, paragraph 9 (3)).

nominal amount, are also issued by some companies. These shares are generally called **Deferred Shares, Founders' Shares,** or **Management Shares,** and are frequently issued as fully paid to the originators of the company, or to their friends. Shares of this class usually stand aside until an agreed dividend has been paid on the Ordinary Shares.

In cases where a patent, or other speculative property, is acquired by a company, it is a salutary practice that the vendor shall be paid largely by means of shares, the dividend upon which is "deferred" until the shares held by those who find the actual cash with which to launch the venture have received a certain fixed rate of dividend.

The advantages of limited liability attach to *all* classes of shares in a limited company. Dividends cannot be paid to any class of shareholder except out of the profits earned by the company; the question as to what are a company's profits, in the legal sense of the term, frequently leads to considerable confusion, and, owing to somewhat conflicting legal precedents dealing with the matter, difference of opinion, and much controversy, have arisen. In ordinary commercial practice, however, such confusion rarely arises, as business men in general adopt a prudent policy and create adequate reserves, treating as profits only the true excess of the earnings of a period over the full cost of those earnings. The student desirous of considering the interesting question "what are the profits of a Company" is referred to the author's *Accounting*, where the matter is fully discussed.

In the case of some companies the capital is not divided into "so many shares of a certain money sum each" but into so many pounds sterling of a specified "Stock" of the company. **Stock** in almost all respects possesses the same characteristics as "Shares"; the rights as to dividend and priority of repayment may be identical in both cases, indeed it is possible for companies if they so desire, to change their capital from the one form into the other. Companies registered under the *Companies Act*, however, cannot *issue* stock; they must first issue shares, and when these are fully paid, they can then be converted into stock. "Stock" may be defined as capital consolidated into one mass for the sake of convenience, and is sometimes transferable

in any fractions. Companies operating under the *Companies Act* invariably require transfers of stock to be of units, and refuse to recognise transfers of fractions. Fractions of shares are not allowed to be transferred, *one* share being, as a rule, the minimum. Every "share" must originally (or always if not fully paid up) have a distinguishing number. The 1948 Act provided for the first time (S. 74) that if all the issued shares of any class are fully paid and rank *pari passu* they need no longer be numbered (companies are commencing to avail themselves of this permission). "Stock" of course cannot have a number.

The "Share Capital" of a company is, of course, the proprietors' capital, and corresponds to the partners' Capital in a private partnership, although, unlike the latter, it is unalterable except as provided for in the Act. In addition to the issue of Share Capital, companies frequently raise money in the shape of loans for fixed periods, interest being paid on these obligations no matter whether the company's profits are sufficient to pay them or not. The repayment of borrowings of this kind is usually secured by the pledge of certain portions of the company's property coupled with a "General Charge," under which the whole of its Assets are hypothecated. Sometimes, such loans are secured by means of separate deeds under the company's seal given to each individual lender, known as **Debentures,** setting forth the amount of the loan and the conditions under which it has been raised. A debenture which creates a specific charge over a particular asset (*e.g.* land and buildings) is said to create a **Fixed Charge.** The modern debenture almost invariably covers the whole property of the company both present and future, and is termed a **Floating Charge.**

In other cases **Debenture Stock** is issued in the same manner as "Preference" and other Stocks are issued. In this case also, the debentures may be said to be consolidated into "one mass for the sake of convenience." In cases where Debenture Stock is issued trustees are appointed to act for the holders of the Stock, and to hold the charge over the company's Assets for the protection of the stockholders. A **Trust Deed** appointing **Debenture Trustees** is essential in the case of Debenture Stock. **Debenture Bonds,** if issued, are usually for round sums, *e.g.* £50, £100, £200 and so on,

and they may be expressed as payable to the original lender of the money or "to bearer," *i.e.* to the holder of the document for the time being.

In cases where **Debentures to Bearer** are issued a sheet of interest Coupons is attached. This sheet consists of a number of small "pay orders," detachable as they mature, and representing, in each case, the interest due for a certain half-year or other period, the complete sheet usually containing coupons covering the whole "life" of the Debenture Bond. Where the Bonds are for a long term of years, it may not be practicable for coupons to be attached to cover the whole life of the Bonds; in that case, a suitable number of coupons are attached, together with a **Talon** (following the last coupon), in exchange for which a fresh sheet of coupons can be obtained from the company. Each coupon when due is detached and presented for payment (usually through a banker), as and where indicated upon the Coupon itself.

Debenture *Stock* must always be fully paid, but debentures of other classes may be partly paid.

Debentures, except "Bearer" Debentures, and Debenture Stock, are usually transferable from one person to another by deed. The transfer of Bearer Debentures is effected by the simple delivery of the documents themselves.

Examination candidates sometimes refer to debentures as part of the capital of the company. The capital of the company is the property of the shareholders who subscribe it; they are *proprietors* of the company. Debentures, on the other hand, are loans, and the debenture holders are *creditors* of the company. This distinction will furnish the student with the reason why debenture interest is payable whether profits are made or not—a point which seems to trouble him sometimes.

Companies are usually managed by a small number of persons, generally shareholders, called a **Board of Directors.** These governing bodies appoint such managing directors, managers and other officials as are needful for the proper conduct of the company's business. The Boards of Directors of reputable and well-conducted undertakings usually consist of influential men possessing, in many cases, expert knowledge of the company's particular business. Every public company registered

on or after 1st November 1929 must have at least two directors, and every company registered before that date, and every private company, must have at least one director (S. 176). Every company must also have a secretary and if there is only one director he cannot also be the secretary (S. 177). The Articles of Association of the company fix the powers and duties of the directors.

Retirement of Directors under Age Limit. The provisions under this heading were first introduced by the 1947 Act and are now contained in the 1948 Act, SS.185 and 186. The provisions do not apply to an exempt private company: as regards other companies it is provided that directors normally must retire at the age of 70 but, subject to the observance of certain formalities the members may re-elect any particular director notwithstanding that he may have passed this age. Further, any company may take power by its articles to modify the statutory provisions (as regards all its directors).

The company must keep a *Register of Directors and Secretaries*, showing, as regards each individual, his present christian names and surname, former names (if any), usual residence, occupation, particulars of other directorships (other than of wholly owned subsidiaries, etc., of the company in question) and nationality. In the case of a company where the provisions in the 1948 Act regarding the age limit apply (*i.e.* in general a public company) the date of birth must also be stated. A copy of this Register must be delivered to the Registrar of Companies within fourteen days of the appointment of the first directors, and of any changes that may occur in the directorate.

S. 195 compels every company to keep a *Register of Directors' Shareholdings, etc.*, in which must be recorded as regards each director the number, description and amount of shares or debentures held by him and the price at which such shares or debentures are bought or sold. This register must be open for inspection at the company's registered office and must also be produced and available for inspection at the Annual General Meeting.

It is customary when a new Public Company is formed to make an appeal to the public to subscribe its capital. The document setting forth the details of the company's business, the amount of capital offered for subscription, the names of the officials and the profits estimated to

arise from future trading, is termed a **Prospectus.** It is sometimes stipulated that the capital offered for subscription is to be paid up by the applicant in instalments; a deposit is required on **Application,** a further payment is to be made, as a rule, when the application is granted by the Board (*i.e.* when the shares are **Allotted**), and further **Calls** are payable, either upon the dates set out in the prospectus, or as and when deemed to be desirable by the directors.

Section 455 defines a prospectus as "any prospectus, notice, circular, advertisement, or other invitation offering to the public for subscription or purchase any Shares or Debentures of a Company." Every prospectus issued prior to the first allotment of Shares offered to the public for subscription must state the **Minimum Subscription,** *i.e.* the smallest number of Shares that must be subscribed in order to provide "(i) the minimum amount which, in the opinion of the Directors, must be raised by the issue of those shares in order to provide the sums, or, if any part thereof is to be defrayed in any other manner, the balance of the sums, required to be provided in respect of each of the following matters:—

(*a*) the purchase price of any property purchased or to be purchased which is to be defrayed in whole or in part out of the proceeds of the issue; (*b*) any preliminary expenses payable by the company, and any commission so payable to any person in consideration of his agreeing to subscribe for, or of his procuring or agreeing to procure subscriptions for, any shares in the company; (*c*) the repayment of any moneys borrowed by the company in respect of any of the foregoing matters; (*d*) working capital. (ii) the amounts to be provided in respect of the matters aforesaid otherwise than out of the proceeds of the issue and the sources out of which those amounts are to be provided"

The Minimum Subscription must be subscribed before the directors can proceed to allotment.

It is not considered necessary to detail the many other statutory provisions affecting prospectuses in this book. Students will be required to acquire this information at a more advanced stage of their studies, when they will find these matters fully dealt with in *Higher Book-Keeping and Accounts*.

In order to record the capital transactions of a company, entries must be passed through the ordinary books

of account, but, in view of the large number of individual shareholders of which a company may consist, it is customary to record the necessary entries in the financial books, as far as possible, in totals. Separate statistical books, styled **Register of Members,** and **Debenture Registers**, are used to record the names and the holdings of the individual Members or Debenture holders, who subscribed for the shares or debentures when they were first issued, or as those holdings have been subsequently varied by sale or purchase.

All sums payable to a company upon its making a public issue of shares are usually payable direct to the company's bankers; and it is with the receipt by the latter of an **Application Form** for shares, coupled with the applicant's cheque for the application deposit, that the entries in the company's books commence.

If the company is a small one, and the applications are few in number, they may be debited in detail in the Cash Book. In most cases, however, it is necessary to keep a separate subsidiary Cash Book for the record of Application and Call Moneys, the totals of which are transferred to the main Cash Book at intervals. These totals are credited to an Account styled the **Application and Allotment Account.** It is conceivable that the issue of shares may be over applied for by the public and that deposits may have to be returned to applicants who receive no allotment; again, applicants may receive an allotment of a less number of shares than they have applied for, in which case any surplus paid on application is usually applied in reduction of the amount payable on allotment, the balance only of the latter instalment then becoming payable.

The directors go through the **List of Applications** and decide the number of shares which shall be allotted to each applicant; they direct the secretary of the company to issue to the applicants notices of all allotments made (styled **Letters of Allotment**), and upon these letters being duly posted the contract between the applicant and the company becomes complete, unless the applicant can prove misrepresentation. Thereafter the applicant is legally bound to take and pay for the shares allotted to him upon his application, as and when called upon to do so. The Act of 1948 provides that an application for shares or debentures, once made, cannot be revoked by the applicant till after the third day (not counting Satur-

days, Sundays or bank holidays) after the time of opening of the subscription lists (S. 50).

Upon the allotment of a block of capital in this manner the Application and Allotment Account should be debited with the total sum payable on application and on allotment on the whole issue of the shares so allotted, and this sum should be credited to the **Share Capital Account.** When the instalments due on allotment are paid they should be credited to the Application and Allotment Account, and to this account should be debited any cheques drawn in favour of those applicants who have received no allotment, or amounts remitted to partly successful applicants, in order to return any deposit, or excess of deposit, which they may have paid upon application. When, finally, all allotment moneys have been duly received by the company, the Application and Allotment Account should, of course, show no outstanding balance.

The crediting of the total of the allotment moneys, along with the application deposits, to the Share Capital Account before the cash has actually been received amounts to an anticipation of events, and a reversing entry may subsequently be needed if any shareholders fail to pay their allotment instalments (*see* p. 323).

Section 80 provides that every company shall, within two months after the allotment of its shares or debentures, or within two months after the date on which a valid transfer of shares or debentures is lodged with the company, have complete and ready for delivery the certificates representing such shares or debentures unless the conditions of issue otherwise provide.

The prospectus of a new issue sometimes specifies the dates on which further instalments on the shares are to be paid. If, in the absence of such notice, the directors decide to make a "call" upon the members for some further portion of the capital remaining unpaid, formal notices (**Call Letters**), requesting the payment of the call at a stated future date, are sent out to the members by the secretary. Upon the call falling due an entry, crediting the Share Capital Account and debiting the Call Account, is made for the total amount receivable in respect of the call (this resembles the procedure in the case of the Allotment moneys). As the various shareholders pay to the company's bankers the sums due from them, the Cash Book is debited in detail, and the Call

Account is credited in one or more totals; when the full amount of the call has thus been received the Call Account in the Ledger closes automatically. If any balance remains upon this account, it represents the amount of the **Unpaid Calls** at that date.

Many companies open separate banking accounts for Application and Allotment moneys, and for each Call. The pass books, or daily sheets, arising from these banking accounts are duplicated by special Cash Books, the totals of which are transferred from time to time to the main Cash Book. Similar transfers of cash are made from the subsidiary to the main banking account.

Where a company makes a public issue as explained above, the shares issued to the public must be paid for in cash. The law, however, permits **Fully** or **Partly Paid Shares** to be issued in exchange for any kind of valuable consideration other than cash, *e.g.* land, buildings, plant, machinery, book debts, patent rights, goodwill, and even personal service, subject to certain special formalities being complied with; viz. that an agreement between the company and the vendor setting forth the nature of the consideration which the company acquires in exchange for the shares so issued shall be executed and registered with the Registrar of Companies within one month after the allotment of such shares. Fully or Partly Paid Shares issued in this way in exchange for Assets are frequently referred to as "Shares issued credited as fully (or partly) paid"; if issued as Partly Paid the balance due upon the shares must be paid up in cash as and when the directors may call for it. Debentures can similarly be issued as fully paid, and in their case a "consideration" (*e.g.* assets) is not legally necessary.

In cases where a company, specially formed for the purpose, takes over, as a going concern, the Assets and Liabilities (including the Goodwill) of a pre-existing partnership, a substantial portion of the purchase price is frequently satisfied by means of an issue to the former owners of the business of an amount of shares, stock, or debentures credited as fully paid up; these securities may rank equally with similar securities issued to the public, but if the latter is being approached for the subscription of a large sum of money there is more probability of a satisfactory response resulting if the vendors take securities ranking behind those offered to

the public. The announcement that the former owners have agreed to take a large portion of the purchase price of their business in Ordinary or Deferred Shares naturally evidences their faith in the future prospects of the undertaking, and begets public confidence.

In cases where the whole of the purchase consideration is taken in Cash or in Debentures the attendant issue of Preference or Ordinary Shares may well be avoided by the prudent investor. In any case, where the proceeds, or part of the proceeds, of an issue of shares or debentures to the public is to be applied directly or indirectly in the purchase of any business, the prospectus must contain a report, made by the accountants named in the prospectus, upon the profits of that business in respect of each of the five financial years immediately preceding the issue of the prospectus (or of the less number of years that the business has been in existence) (Sec. 38 and Fourth Schedule (Part II)). In practice it appears to be usual now for the report to include the figures for ten years

In a typical case, the new company takes over from the former owners (the vendors) certain Assets, together with the Goodwill for a stated amount of money, payable in cash or shares as specified, and in addition assumes the old firm's current liabilities. The purchase price, therefore, does not consist solely of the amount of cash or shares issued to the vendors; it embraces the latter amount plus the amount of the Liabilities assumed. Frequently a round sum is mentioned as representing the purchase price of the Assets plus the Goodwill and minus the Liabilities, the detailed purchase price of the individual Assets and of the Goodwill not being specifically mentioned, although, if a public issue be made, the purchase price of the Goodwill must be separately stated in the prospectus. In the circumstances detailed above, the individual Assets taken over should be valued at a fair price, and the balance of the purchase money paid must be assumed to represent the Goodwill of the business. Such transactions must be made the subject of a Journal entry in which full details of the matter are set out.

Example.—If a newly-formed company acquires from an existing partnership £30,000 worth of tangible Assets plus the Goodwill for £50,000 and undertakes to discharge in addition Liabilities amounting to £10,000, the total purchase price amounts to £60,000 (*i.e.* £50,000 plus £10,000), of which £30,000 can be

Account is credited in one or more totals; when the full amount of the call has thus been received the Call Account in the Ledger closes automatically. If any balance remains upon this account, it represents the amount of the **Unpaid Calls** at that date.

Many companies open separate banking accounts for Application and Allotment moneys, and for each Call. The pass books, or daily sheets, arising from these banking accounts are duplicated by special Cash Books, the totals of which are transferred from time to time to the main Cash Book. Similar transfers of cash are made from the subsidiary to the main banking account.

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Example.—If a newly-formed company acquires from an existing partnership £30,000 worth of tangible Assets plus the Goodwill for £50,000 and undertakes to discharge in addition Liabilities amounting to £10,000, the total purchase price amounts to £60,000 (*i.e.* £50,000 plus £10,000), of which £30,000 can be

ranked as representing the cost of the tangible Assets, and the balance of £30,000 can only be treated as the cost price of the Goodwill acquired.

A company purchasing an existing business in this way frequently pays for the Goodwill acquired a price far higher than a private individual would be likely to give; to this fact is often due the "Inflated" or "Watered" capitals which are unfortunately sometimes met with in joint stock company enterprise, and the existence of this practice is due to a great extent to the fact that the investor, whose liability is limited, is satisfied with a smaller return per cent. per annum upon his money than is the case with the individual trader whose liability is unlimited.

There is a growing practice, however, to reduce the value placed on Goodwill, the vendors taking deferred shares as consideration; such shares carrying valuable profit-sharing rights. Provided the subscribing public are also given the right to take up deferred shares, this practice has much to commend it.

The foregoing principles are embodied in the subjoined illustration, which is that of a company formed to take over an existing business for a stated consideration payable in cash, shares, and debentures, and making an appeal to the public for subscriptions.

Example.—Messrs. Grant, Wood & Co.'s Balance sheet at December 31, 19—, shows the following Assets and Liabilities—

	£	*s.*	*d.*
Assets.—			
Cash	1,000	0	0
Stock	18,000	0	0
Debtors	29,000	0	0
Premises	14,000	0	0
	£62,000	0	0
Liabilities.—			
Sundry creditors	£12,000	0	0

The firm contracts, as on December 31, 19—, to sell their business to a limited Company, incorporated for the purpose under the name of Grant, Wood & Co., Ltd., for £75,000, payable as to £5,000 in cash, £10,000 in fully paid 5 per cent. Debentures, and as to £60,000 in fully paid shares, the Company taking over all the assets set forth above and assuming all the firm's liabilities.

The authorised share capital of the Company is registered as £150,000 in 150,000 shares of £1 each.

The Company, on January 5 following, offers for public subscription 60,000 £1 shares payable as follows: 1*s.* per share on application, 9*s.* per share on allotment, and 10*s.* per share

on February 1. Applications, accompanied by the necessary deposit of 1*s*. per share, were received for 75,000 shares; 60,000 shares were allotted on January 8, in respect of these applications, in various proportions, amounts overpaid on application being applied towards part payment of the moneys due on allotment. Of the moneys due on allotment £20,100 was received on January 10 and the balance on January 11. The transfer to the Company of the assets acquired from Grant, Wood & Co. took place on January 10, the cash consideration being paid by cheque on the Company's bankers, and the shares and debentures being duly allotted on that day to the vendors. The balance of 10*s*. per share, due from the allottees on February 1, was received by the Company, as to £29,000 on February 1, and as to the remainder on February 2. The Preliminary Expenses were paid by the Vendors.

Show these transactions as they would appear in the Company's Cash Book, Journal, and Ledger, bringing down the balances as on February 2, and preparing a Balance Sheet as on that date.

GRANT, WOOD & CO., LTD.

CASH BOOK

Dr. | Cr.

			£	s.	d.				£	s.	d.
19— Jan. 5	To *Application and Allotment Account*— 1*s*. per share on applications received for 75,000 shares	3	3,750	0	0	19— Jan. 10	By *Grant, Wood & Co., Vendors*— Cash portion of the purchase consideration...	5	5,000	0	0
,, 10	,, *Application and Allotment Account*— Sundry Allotment moneys ...	3	20,100	0	0	Feb. 2	,, Balance carried down	√	56,000	0	0
,, 11	Sundry Allotment moneys ...	3	6,150	0	0						
,, 10	,, *Grant, Wood & Co., Vendors*— Cash Balance received from them.........	J	1,000	0	0						
Feb. 1	,, *First Call Account*— Sundry calls received ...	4	29,450	0	0						
,, 2	Sundry calls received ...	4	550	0	0						
		£	61,000	0	0			£	61,000	0	0
19— Feb. 2	To Balance brought down	√	56,000	0	0						

GRANT, WOOD & CO., LTD.

JOURNAL

			£	s.	d.	£	s.	d.
19— Jan. 8	Sundries Dr.							
	To Sundries, viz.							
	Cash	C.B.	1,000	0	0			
	Stock	6	18,000	0	0			
	Debtors	7	29,000	0	0			
	Premises	8	14,000	0	0			
	Goodwill	9	25,000	0	0			
	Sundry Creditors ...	10				12,000	0	0
	Grant, Wood & Co. (Vendors)	5				75,000	0	0
	For assets, liabilities, and purchase consideration on taking over the business of the late firm of Grant, Wood & Co. pursuant to the purchase agreement of December 31, 19—.							
			£87,000	0	0	£87,000	0	0
„ 8	Application and Allotment Account ....Dr.	3	30,000	0	0			
	To Share Capital Account	1				30,000	0	0
	For 10*s.* per share due on application and allotment on 60,000 shares allotted this day.							
„ 10	Grant, Wood & Co. (Vendors) ....Dr.	5	70,000	0	0			
	To Sundries, viz.—							
	Share Capital	1				60,000	0	0
	5 per cent. Debentures	2				10,000	0	0
	For shares and debentures issued to the vendors and credited as fully paid up in part settlement of the purchase consideration, pursuant to the agreement of December 31, 19—.							
Feb. 1	First Call Account ......Dr.	4	30,000	0	0			
	To Share Capital Account	1				30,000	0	0
	For 10*s.* per share on 60,000 shares allotted to the public, due February 1.							
			£130,000	0	0	£130,000	0	0

GRANT, WOOD & CO., LTD.

LEDGER

1 Share Capital Account 1

Dr. | Cr.

			£	s.	d.				£	s.	d.
19— Feb. 2	To Balance carried down, 120,000 shares of £1 each .	√	120,000	0	0	19— Jan. 8	By Application and Allotment Account 10s. per share on 60,000 shares allotted to the public.........	J.	30,000	0	0
						,, 10	,, Grant, Wood & Co., 60,000 fully paid shares allotted the vendors	J.	60,000	0	0
						Feb. 1	,, First Call Account, 10s. per share (balance) due on 60,000 shares allotted to the public.........	J.	30,000	0	0
		£	120,000	0	0			£	120,000	0	0
						19— Feb. 2	By Balance brought down, 120,000 shares of £1 each	√	120,000	0	0

2 Five per cent. Debentures Account 2

Dr. | Cr.

									£	s.	d.
						19— Jan. 10	By Grant, Wood & Co., £10,000 Debentures issued as part of purchase consideration............	J.	10,000	0	0
								£	10,000	0	0

3 Application and Allotment Account 3

Dr. Cr.

			£	s.	d.				£	s.	d.
19— Jan. 8	To Share Capital Account, 10s. per share on 60,000 shares allotted to the public	J.	30,000	0	0	19— Jan. 5	By Cash, Sundry Application Deposits	C.B	3,750	0	0
						„ 10	„ Cash, Sundry Allotment moneys	C.B	20,100	0	0
						„ 11	„ Cash, Sundry Allotment moneys	C.B	6,150	0	0
		£	30,000	0	0			£	30,000	0	0

4 First Call Account 4

Dr. Cr.

			£	s.	d.				£	s.	d.
19— Feb. 1	To Share Capital Account, 10s. per share on 60,000 shares allotted to the public	J.	30,000	0	0	19— Feb. 1	By Cash, sundry calls......	C.B	29,450	0	0
						„ 2	„ Cash, sundry calls......	C.B	550	0	0
		£	30,000	0	0			£	30,000	0	0

5 Grant, Wood & Co. (Vendors) 5

Dr. Cr.

			£	s.	d.				£	s.	d.
19— Jan 10	To Cash	C.B	5,000	0	0	19— Jan. 8	By Sundries, purchase consideration as per agreement of December 31st............	J.	75,000	0	0
„ 10	„ Share Capital Account, shares allotted as fully paid	J.	60,000	0	0						
„ 10	„ 5 per cent. Debentures Account, Debentures allotted as fully paid ...	J.	10,000	0	0						
		£	75,000	0	0				75,000	0	0

6 Stock Account 6

Dr. Cr.

			£	s.	d.						
19— Jan. 8	To Sundries, Stock taken over	J.	18,000	0	0						
		£	18,000	0	0						

7 **Sundry Debtors** 7

Dr. Cr.

			£	s.	d.				£	s.	d.
19— Jan. 8	To Sundries, Sundry Debtors taken over 6.........	J.	29,000	0	0		*Note.*—Accounts would, of course, be opened for each Debtor comprised in this total.				
		£	29,000	0	0						

8 **Premises** 8

Dr. Cr.

			£	s.	d.				£	s.	d.
19— Jan. 8	To Sundries, Premises taken over...	J.	14,000	0	0						
		£	14,000	0	0						

9 **Goodwill Account** 9

Dr. Cr.

			£	s.	d.				£	s.	d.
19— Jan. 8	To Sundries, cost price of goodwill ...	J.	25,000	0	0						
		£	25,000	0	0						

10 **Sundry Creditors** 10

Dr. Cr.

			£	s.	d.				£	s.	d.
	Note.—Accounts would be opened for each Creditor comprised in this total.					19— Jan. 8	By Sundries, Sundry Creditors assumed as part of the purchase consideration ...	J.	12,000	0	0
								£	12,000	0	0

GRANT, WOOD & CO., LTD.

BALANCE SHEET, as on February 2, 19—

	£	s.	d.		£	s.	d.
				Goodwill at Cost	25,000	0	0
Share Capital authorised— 150,000 shares of £1 each £150,000				Premises at Cost	14,000	0	0
				Stock of Goods	18,000	0	0
				Sundry Debtors	29,000	0	0
Share Capital issued— 60,000 Shares issued to the public for cash .... £60,000 60,000 Shares issued to the vendors and credited as fully paid £60,000 120,000	120,000	0	0	Cash at Bank	56,000	0	0
5 per cent. Debentures	10,000	0	0				
Sundry Creditors	12,000	0	0				
£	142,000	0	0	£	142,000	0	0

It has already been mentioned that the Share Capital transactions of a company are passed through the financial books of account as far as possible in totals.

We have seen that the ordinary records applicable to a private business are equally applicable to a limited company in the same trade. In addition to these records however, a limited company employs certain registers and records, some of them because they are compulsory under Statute, and others because they have been found convenient. Thus separate statistical books and registers are kept for the purpose of safeguarding the various members' interests and holdings *inter se*. Such books are termed **Share** (or **Debenture**) Registers; in them an account is opened for each individual holder, and separate registers, or sets of registers, are kept for each class of Share, Stock, or Debenture. A **Register of Members** must be kept and be open for public inspection during business hours: no charge may be made for such inspection in the case of members: other persons may be charged a fee not exceeding one shilling. Copies of the register or any part may also be required from the company (S. 11) on payment of a small fee. It has been held that a shareholder is not a member till his name is entered on the Register of Members. If the Register is not in alphabetical order, an **Index** must be provided in the case of every Company having more than fifty members.

GRANT, WOOD & CO., LTD.

REGISTER OF NAMES

Name of Member : HENRY NORMAN. *Occupation :* Chartered Accountant. *Date of entry as a Member :* January 8, 19—
Address : 1754 Cannon Street, London, E.C. *Date of ceasing to be a Member :* April 16, 19—

SHARES ACQUIRED.										SHARES DISPOSED OF.									BALANCE.			
Date.	No. of Allotment or Transfer.	No. of Shares.	Distinctive Numbers of Shares.		Details.	Folio.	Amount of Capital paid up.			Date.	No. of Transfer Deed.	Folio in Transfer Register.	No. of Shares.	Distinctive Numbers of Shares.		Amount of Capital paid up.			Balance.			
			From	To			£	s.	d.					From	To	£	s.	d.	Shares.	Capital paid up. £	s.	d.
19— Jan.6					Cash, Application Money ...	C.B. 94	55	0	0											55	0	0
,, 8	Allotment 39	1,000	34001	35000	Allotted ...	A.B. 17													1,000	55	0	0
,, 10					Cash, Allotment Money ...	C.B. 109	445	0	0										1,000	500	0	0
Feb. 1					Cash, First Call	C.B. 171	500	0	0										1,000	1,000	0	0
Mar. 6	Transfer 121	2,000	72096	74095	Transferred	T.R. 5	2,000	0	0										3,000	3,000	0	0
										19— Apr.10	107	10	1,500	34001 72096	35000 72595	1,500	0	0	1,500	1,500	0	0
										,, 16	212	11	1,500	72596	74095	1,500	0	0				
		3,000					£ 3,000	0	0				3,000			£ 3,000	0	0				

It is to be noted that each transaction in the above form affects the balance either of capital paid up or shares, and that the balance column requires to be entered up after each transaction.

The particulars at the head of the account are required for the annual list of members, and in order to comply with the requirements of the *Companies Act*, 1948. The entry of "Occupation", though usual, is no longer compulsory.

There is no statutory form of Register, and forms vary, but the above conforms to modern usage.

A form of Share Register is appended, containing a specimen account of a shareholder named Henry Norman. He applied on January 6, 19—, for 1,100 shares in Grant, Wood & Co., Ltd. (see previous example), paying 1*s.* per share deposit; 1,000 shares were allotted to him, and the allotment moneys and first call were duly paid on the respective due dates. This member bought a further 2,000 shares in the open market, at a later date, and the transfer deed was duly registered and approved by the directors on March 6, 19— ; the whole 3,000 shares were subsequently sold by Henry Norman, the transfer for 1,500 of them being approved by the directors on April 10, 19— and the transfer for the remaining 1,500 on April 16, 19—.

In order to record the particulars of the applications received in response to the offer of Shares for public subscription by a company, a separate Statistical Book (or series of loose sheets), called an **Application and Allotment Book** (or series of sheets), is employed. These records contain the history of each application from the time it was first received until the Share Registers are compiled subsequent to the allotments having been duly made; it is from the Application and Allotment Book that the Share Registers are written up as regards the names of allottees, and the numbers and distinctive numbers of the shares allotted to them. The separate sums of cash paid by applicants are posted from the Cash Book to the credit of the allottees' accounts in the Share Register, although such posting forms no part of the double entry in the company's books of account, the credit in total to the Application and Allotment Account in the Ledger, already described, being the correct contra entry for the debit in the Cash Book.

A specimen page of the Application and Allotment Book, of Grant, Wood & Co., Ltd., appears on p. 309.

In the first instance the applications are entered in the above book from the application forms themselves as received from the company's bankers, and the book is then submitted to the directors for consideration. Shares when allotted are entered in the "Number of Shares Allotted" column, and the book is thereupon signed by the chairman of the board of directors for identification purposes. If loose sheets are employed, each sheet should be initialed.

The work attached to transfers of shares as between

GRANT, WOOD & CO., LTD.

APPLICATION AND ALLOTMENT BOOK

Date.	Number of Application.	Name of Applicant.	Address.	Occupation.	Number of Shares Applied for.	Amount of Deposit paid upon Application.			Number of Shares Allotted.	Distinctive Numbers of Shares Allotted.		Total Amount due on Application and Allotment.			Amount of Deposit (if any) Returnable.			Further Sum due on Allotment.			Folio in Share Register.	Allotment Money.	
						£	s.	d.		From	To	£	s.	d.	£	s.	d	£	s.	d.		Cash Book Folio.	Date Paid.
19—			Brought	forward...	40,000	2,000	0	0	34,000			17,000	0	0	100	0	0	15,100	0	0			19—
Jan. 6	39	*Norman*, Henry*	1754 Cannon Street, London, E.C.	Chartered Accountant	1,100	55	0	0	1,000	34001	35000	500	0	0	—	—	—	445	0	0	172	109	Jan. 10
„ 6	40	*Brown*, Joseph	Margate, Kent	Farmer	100	5	0	0	10	35001	35010	5	0	0	—	—	—	—	—	—	173	—	—
„ 6	41	*Harris* Enos	121 Houndsditch, E.C.	Furrier	1,000	50	0	0	80	35011	35090	40	0	0	10	0	0	—	—	—	174	—	—
„ 6	42	*Cavendish*, Sir Percival Grosvenor	990 Piccadilly, W.	Director of A.R. & Co., Ltd.	200	10	0	0	200	35091	35290	100	0	0	—	—	—	90	0	0	175	111	Jan. 11
„ 6	43	*Smith*, John	1346 Laburnum Avenue, Tooting	Clerk	20	1	0	0	20	35291	35310	10	0	0	—	—	—	9	0	0	176	110	Jan. 10
										(*Signed*) ISIDORE GRANT,													
			Carried	forward...	42,420	£2,121	0	0	35,310	*Chairman.*	£	17,655	0	0	£110	0	0	£15,644	0	0			

* This allotment relates to the illustration given on p. 308.

vendors and purchasers forms a considerable portion of the Secretary's (or Registrar's) duties in a large company. Particularly is this the case where the business of the company attracts investors with speculative instincts, such, for instance, as a mining company. In the case of such companies, the Transfer Department and its staff is frequently far larger than the ordinary Counting House section of the office. It is a common modern practice, especially as regards the smaller public companies, for the company to appoint an outside individual or firm to carry out all the duties of the registrar. Such individual or firm becomes in effect, for this purpose only, an officer of the company with the responsibilities attaching to that position. Some firms make a speciality of this kind of work and may act as registrars for a large number of companies : in such a case they will have custody of the register and be responsible for the checking of transfers and the making out of share certificates and all the work incidental thereto : they will also usually be responsible for all the detailed work arising in connection with the payment of dividends.

For the preliminary record of transfers a **Transfer Register** may be kept, which is written up from the Transfer deeds themselves, and, after the approval of each individual transfer by the directors, serves as a posting medium, somewhat in the nature of a Journal, for subsequently effecting the necessary entries in the Share Register in the accounts kept both for the seller of the shares (**Transferor**) and the purchaser of them (**Transferee**).

The more modern practice, however, is to bind the transfer forms in a Guard Book, and use this as the Register of Transfers. A separate Register, or Guard Book, should be kept for each class of share issued by the company.

A form of Transfer Register is appended, and the purchase and sales of Shares in Grant, Wood & Co., Ltd. (*see* above), made by Henry Norman have been entered in it by way of illustration. It is desirable that the entries of transfers in this book should be initialed by the Chairman of the directors' meeting at which they are approved.

Some companies employ special forms of transfer, but, in most cases, the common form is accepted, as illustrated on p. 312.

Grant, Wood & Co., Ltd.

TRANSFER REGISTER

Number of Transfer.	Date Transfer Lodged.	Date of Transfer Deed.	Transferor's Name.	Transferor's Address.	Transferor's Occupation.	Transferor's Folio in Share Register.	Shares Transferred: Number.	Amount per Share paid.	Capital paid up. £	s.	d.	Distinctive Numbers. From	To	Transferee's Name.	Transferee's Address.	Transferee's Occupation.	Transferee's Folio in Share Register.	Number of New Certificate.
121	19— Mar.6	19— Mar.5	*Jones*, Owen	Llantrysant	Farmer	69	2000	£1	2,000	0	0	72096	74095	*Norman*, Henry	1754 Cannon St., E.C.	Chartered Accountant	172	1046
207	Apr.9	Apr.8	*Norman*, Henry	1754 Cannon St., E.C.	Chartered Accountant	172	1500	£1	1,500	0	0	{34001 72096	35000 72595}	*Higgins*, Abel	Aberystwith	Saddler	428	1362
212	Apr. 15	Apr.8	*Norman*, Henry	1754 Cannon St., E.C.	Chartered Accountant	172	1500	£1	1,500	0	0	72596	74095	*Morris*, John James	Westmeath, Sleaford	Member of Parliament	461	1382
														(*Signed*)	ISIDORE	GRANT, *Chairman.*		

SHARE TRANSFER.

Impressed Stamp £20.

I, Owen Jones, of Llantrysant, Farmer, in consideration of the sum of [See Note at Foot] *Two thousand pounds* paid by *Henry Norman, of* 1754 *Cannon Street, E.C., in the City of London, Chartered Accountant,* hereinafter called the said Transferee, **Do** hereby bargain, sell, assign and transfer to the said Transferee :—*Two Thousand* (2,000) *fully paid shares of one pound each, numbered* 72096 *to* 74095 *inclusive,* of and in the undertaking called *Grant, Wood and Company, Limited.*

To hold unto the said Transferee, *his* Executors, Administrators and Assigns, subject to the several conditions on which *I* held the same immediately before the execution hereof; and *I* the said Transferee do hereby agree to accept and take the said *Shares* subject to the conditions aforesaid.

As Witness our Hands and Seals, this *fifth* day of *March,* in the Year of our Lord One thousand nine hundred and

Certificate of the within mentioned 2,000 *Shares* has been lodged at the Company's Office, ROBERT WOOD, *Secretary.*

Signed, sealed, and delivered, by the above named *Owen Jones,* in the presence of

Witness's: Signature,* *Michael Macgillicuddy.* Address, *Llantrysant, Wales.* Occupation, *Farm Bailiff.* — OWEN JONES. (SEAL)

Signed, sealed, and delivered, by the above named *Henry Norman,* in the presence of

Witness's: Signature,* *N. Howell.* Address, 1754 *Cannon Street, London, E.C.* Occupation, *Audit Clerk.* — H. NORMAN. (SEAL)

Signed, sealed, and delivered, by the above named........................in the presence of

Witness's: Signature*.. Address.. Occupation.. — .... (SEAL)

Signed, sealed, and delivered, by the above named........................in the presence of

Witness's: Signature*.. Address.. Occupation.. — .... (SEAL)

NOTE.—The Consideration-money set forth in a transfer may differ from that which the first Seller will receive, owing to subsales by the original Buyer; the Stamp Act requires that in such cases the Consideration-money paid by the Sub-purchaser shall be the one inserted in the Deed, as regulating the *ad valorem* Duty; the following is the *Clause* in question :—

"Where a Person having contracted for the purchase of any property, but not having obtained a Conveyance thereof, contracts to sell the same to any other Person, and the Property is, in consequence, conveyed immediately to the Sub purchaser, the Conveyance is to be charged with *ad valorem* Duty in respect of the Consideration moving from the Sub-purchaser "—[54 & 55 Vic., cap. 39 (1891), section 58, sub-section 4].

INSTRUCTIONS FOR EXECUTING TRANSFERS.

When a transfer is executed out of Great Britain, it is recommended that the Signatures be attested by H.M. Consul or Vice-Consul, a Clergyman, Magistrate, Notary Public, or by some other person holding a public position—as most Companies refuse to recognise Signatures not so attested. When a witness is a Female she must state whether she is a Spinster, Wife, or Widow; and if a Wife she must give her Husband's Name, Address, and Quality, Profession, or Occupation. The Date must be inserted in Words and not in Figures.

When applying for shares, the applicant must fill in an official **Form of Application,** which usually accompanies the prospectus, and which, together with a remittance for the necessary deposit, must be forwarded to the company's bankers. The latter retain the form of application for transmission in due course to the company, and fill in, detach, and hand, or post, to the applicant the form of receipt for the application deposit which is annexed to the application form.

When the directors have allotted Shares, a **Letter of Allotment** is sent by the secretary to the applicant, informing him that the allotment has taken place, and requesting the payment of the allotment money to the company's bankers.

Specimen forms of the above documents are shown on pp. 315 and 316, the details inserted being those relating to the application by Henry Norman for Shares in Grant, Wood & Co., Ltd., as in the foregoing illustration. For each "call," a **Call Letter,** with form of receipt annexed, is sent by the secretary. Where no allotment of shares has been made by the directors, a formal intimation to that effect, called a **Letter of Regret**, is sent to the unsuccessful applicant together with a cheque for the deposit made by him upon application, and a note that this has been done is made in the Application and Allotment Book, or Sheets. Specimen forms of a Call Letter and Letter of Regret appear on pp. 317 and 318 respectively.

As soon after the allotment of Shares as is convenient, and in any case within the statutory period of two months, the **Share Certificates** must be ready for delivery to members. These certificates are formal documents, issued under the company's seal, setting forth the holder's name, and the number of Shares of which he is the registered proprietor. Share Certificates are issued to shareholders in exchange for (1) the receipt for the application money, (2) the allotment letter with the receipt attached for the allotment money, (3) the first (and any other) call receipts for the calls which may have been made, prior to the issue of the Share Certificates. If any of these documents are missing a **Letter of Indemnity** must usually be given to the company in their place.

A specimen form of a Share Certificate is shown on p. 319, the shares in this instance being fully paid. Certificates are sometimes issued before the shares they repre-

sent are fully paid, and in such cases, of course, they only set forth the amount of the calls paid prior to such issue; if further calls are subsequently made, and duly paid, the Share Certificates are endorsed at the company's office with a memorandum of such further payments upon surrender of the call receipt, or new Share Certificates can be issued in exchange for the old ones, which are then cancelled and filed away.

A specimen form of a Registered Debenture is also given on p. 320, and an Interest Coupon on p. 349.

A company may issue **at a discount** shares of a class already issued, provided that the issue of the shares at a discount is authorised by a resolution passed in General Meeting of the company and sanctioned by the Court. The resolution must specify the maximum rate of discount, and not less than one year must, at the date of the issue, have elapsed since the date on which the company was entitled to commence business. Moreover, the shares must be issued within one month after the date on which the Court sanctions the issue (unless the Court allows an extended time). (*Companies Act*, 1948, S. 57.)

With the above exception, shares cannot be legally issued by a company except upon the condition that their full face value has been received either in cash or in kind. There is nothing, however, in company law which prohibits companies from selling their shares for *more* than their face value if persons can be found who are willing to purchase them at enhanced prices. The issue of shares at a price exceeding their face value is termed an issue **at a premium,** and the amount of the excess over the face value is known as the **premium** on the shares so issued. It often happens that a company, in the early stages of its career, makes issues of its shares at their face or par value, and, in later years, the rising success of the undertaking causes the company's shares to command a Stock Exchange quotation in excess of their face value (*e. g.* a £1 share may be quoted at 1¼, or 25*s.*). If a company whose shares are enhanced in market value, by reason of the high dividend it is enabled to pay on its shares desires to raise further capital by a new issue of shares, it will probably offer that new issue to the public at a premium slightly under the current Stock Exchange quotation for the existing shares (*e.g.* say at 24*s.* per share, a premium of 4*s.* per share). The smaller premium, as compared with the market quotation,

Form of Application for Shares.

GRANT, WOOD AND COMPANY, LIMITED.

Incorporated under the Companies Act, 1929

NOTE.—This form must be sent direct to the Company's Bankers, The London & Eastern Bank, Ltd. 894 Lothbury, London, E.C., with a remittance for the deposit of 1s per share on the shares applied for. Cheques should be made payable to The London & Eastern Bank, Ltd., or *Bearer*, and crossed.

To THE DIRECTORS OF GRANT, WOOD AND COMPANY, LIMITED.

Gentlemen,

Having paid to your Bankers, The London and Eastern Bank, Limited, the sum of £55——, being a deposit of one shilling per share on the number of shares applied for by me hereunder, I hereby apply for ——1,100—— Shares of one pound each upon the terms of a prospectus issued by you and dated the 3rd day of January, 19—, and I hereby undertake to accept such shares or any less number which you may allot to me and to pay all further sums due thereon, and to be bound by the regulations of the Company, and I authorize you to place my name upon the register of members.

Signature of applicant—H. NORMAN.

Full name of applicant—HENRY NORMAN.
Address—1754 Cannon Street, London, E.C.
Occupation—Chartered Accountant.

Date—January 6, 19—.

------------------------------(*Perforation*)------------------------------

GRANT, WOOD AND COMPANY, LIMITED.

Banker's Receipt for Deposit upon Application for Shares.
(To be detached and returned to applicant.)

Received this 6th day of January, 19—, of *H. Norman* the sum of *Fifty-five pounds*, being 1*s*. per share upon 1,100 shares applied for in the above Company.

For THE LONDON & EASTERN BANK, LTD.

CHARLES | STAMP | HILL,
Cashier.

£55 : 0 : 0

Letter of Allotment.

GRANT, WOOD AND COMPANY, LIMITED.

Incorporated under the Companies Act, 1929.

484 CORNHILL, LONDON, E.C.
January 8, 19—

Allotment No. 39.

6*d.*
STAMP

DEAR SIR, (*or* MADAM),

I am instructed by the Directors of Grant, Wood and Company, Limited, to inform you that in response to your application they have allotted you —— 1,000 —— Shares in the capital of the Company.

The total amount due upon application and allotment on 1,000 Shares allotted you is	£500	0	0
You have already paid on application for 1,100 Shares	55	0	0
Leaving a balance due from you of ...	£445	0	0

which kindly pay to the Company's Bankers, The London & Eastern Bank, Ltd., 894 Lothbury, E.C., forthwith.

Due notice will be given when the Share Certificates are ready for issue and they will then only be delivered in exchange for this letter, accompanied by the receipts for deposit paid upon application, and for the call due on February 1, 19—.

I am, Dear Sir (*or* Madam),
Yours faithfully,
ROBERT WOOD,
Secretary.

To HENRY NORMAN, Esq.,
1754 Cannon Street, E.C.

NOTE.—This form must be sent direct to the Company's Bankers, The London & Eastern Bank, Ltd., 894 Lothbury, London, E.C., accompanied by a remittance for the amount due on allotment. Cheques should be made payable to The London & Eastern Bank, Ltd., *or Bearer*, and crossed.

Banker's Receipt for Allotment Money.

Received this tenth day of January, 19—, the sum of *Four hundred and forty-five pounds*, due in respect of the above allotment.

For THE LONDON & EASTERN BANK, LTD.

CHARLES | STAMP | HILL,
Cashier.

£445 : 0 : 0

(*Perforation*)

(*This slip to be detached by Bankers and detained by them.*)

GRANT, WOOD AND CO., LTD.

Allotment No. 39.
Amount payable, £445.

Call Letter.

GRANT, WOOD AND COMPANY, LIMITED.

No. 39.

Notice of First Call of 10*s. per share, Ordinary Shares (making* 20*s. per share called up.)*

484 CORNHILL, LONDON, E.C.
January 25, 19—

DEAR SIR, (*or* MADAM),

I beg to give you notice that a First Call of 10*s*. per Share has this day been made by the Board in accordance with the terms of the Prospectus. On the 1,000 Shares held by you in this Company the call amounts to £500. This amount should be remitted to the Company's Bankers (The London & Eastern Bank, Ltd., 894 Lothbury, E.C.) on or before February 1 next.

I am, Dear Sir (*or* Madam),
Yours faithfully,
ROBERT WOOD,
Secretary.

To HENRY NORMAN, Esq.,
1754 Cannon Street, E.C.

(This half to be retained by the Bankers.

(Perforation)

NOTE.—This form must be sent direct to the Company's Bankers, The London & Eastern Bank, Ltd., 894 Lothbury, London, E.C., accompanied by a remittance for the amount due. Cheques should be made payable to The London & Eastern Bank, Ltd., *or Bearer*, and crossed.

GRANT, WOOD AND COMPANY, LIMITED.

No. 39.

Banker's receipt for First Call of 10*s. per share on Ordinary Shares, payable February* 1, 19— *(making* 20*s. per share called up).*

Received the 1*st day of February*, 19—, from HENRY NORMAN, Esq., the sum of £500 : 0 : 0, being First Call of 10*s*. per Share due February 1, 19—, on 1,000 Shares in the above Company.

For THE LONDON & EASTERN BANK, LTD.

JAMES | Receipt Stamp | POUND,
Cashier.

£500 : 0 : 0

(This half, when receipted by the Bankers, must be presented by the Shareholder to be exchanged in due course for the Share Certificate.)

THE RAYON D'OR COMPANY, LIMITED.

(INCORPORATED UNDER THE COMPANIES ACT 1929)

CAPITAL £250,000, divided into 250,000 Shares of £1 each.

Registered Offices: 12, FENCHURCH STREET, LONDON, E.C.3

ISSUE OF 500 DEBENTURES OF £100,

carrying interest at the rate of £ SIX per cent. per annum, payable on the FIRST day of JANUARY and the FIRST day of JULY

The Issue is made under powers contained in the Memorandum and Articles of Association of the Company, and in pursuance of a Resolution of the Board of Directors, dated the 10th day of DECEMBER 1931

No. 189 DEBENTURE. £100

1. THE RAYON D'OR COMPANY, LIMITED (hereinafter called "the Company"), will pay to *James Anthony Carruthers Esquire* of *The Grove, Hatch End, Pinner, Mx.*

or other the Registered Holder for the time being of this Debenture, on the THIRTIETH day of JANUARY, 1952, or on such earlier date as the principal moneys secured by this Debenture shall become payable under the Conditions endorsed hereon, the sum of £ ONE HUNDRED. The Company will during the continuance of this security pay to such Registered Holder interest thereon at the rate of SIX per centum per annum by half-yearly payments on the FIRST day of JANUARY and the FIRST day of JULY in each year, the first of such payments to be made on the FIRST day of JULY next.

2. The Company as beneficial owner hereby charges with such payments its undertaking and all its property and assets, whatsoever and wheresoever, present and future, including its uncalled capital.

3. This Debenture is issued subject to the Conditions endorsed hereon, which are to be deemed part of it.

Given under the Common Seal of the Company this *First* day of *January*, 19..

SEAL OF THE RAYON D'OR COMPANY LTD.

Frederick Downes }
Robert S. Fitzwalter } Directors.

G. B. Hewitt Secretary.

naturally causes the new shares to be sought after, with the result that the public subscription will probably be successful. Briefly put, the purchasers of such shares are paying a premium for admission as shareholders, much as a new partner does when joining an established and successful business.

Premiums received on the issue of shares *must* be credited to a "Share Premium Account" (Sec. 56). The section provides that the premium may be used in any of the following three ways (only):—(1) in paying up unissued shares of the company as fully paid bonus shares, (2) in writing off preliminary expenses or commission paid or discount allowed on any shares or debentures issued by the company, or (3) in providing for the premium payable on the redemption of any redeemable preference shares or debentures of the company. The above applies only to the premiums received on the issue of *shares*, not on the issue of debentures (as to which see below). Any balance on the Share Premium Account must appear in the balance sheet under the heading of Capital Reserves.

Where shares are issued at a discount, the full called-up value of the shares should be credited to Share Capital Account, the discount being debited to a separate account in the ledger entitled **Discount on Shares Account.** It is advisable to write off this account in as short a time as may be found convenient, since it is really an expense of issuing the shares, analogous to Preliminary Expenses (see p. 327). Every Prospectus relating to the issue of the shares and every Balance Sheet issued by the company after the issue of the shares must contain particulars of the discount allowed to the extent to which it has not been written off.

Debentures may, in point of law, be issued either for cash or in exchange for property or services, and for a lesser or greater sum of money or assets than their face value. This divergence from the conditions which govern the issue of shares is due to the fact that a Debenture issued by a company is merely a promise to repay a species of loan, the holder of a Debenture Bond being nothing more than a *creditor* (or frequently a mortgage creditor), and not in any sense a *proprietor* (shareholder) of the Company.

Premiums received on the issue of Debentures should be placed to a separate account, or to a special Reserve Account. In the absence of express prohibition in the

Articles, there would appear to be nothing to prevent such premiums from being treated as ordinary revenue; it is suggested, however, that such receipts should be reserved for "capital" purposes.

When debentures are **Issued at a Discount,** that is to say, for a less amount of cash than the full face value which the company undertakes to repay at maturity, the Debentures Account must be credited with the full amount to be repaid at maturity, this course being essential in order that the full amount of the company's liability may appear upon the books. For instance, a debenture of £100 is issued to-day at £95, repayable ten years hence. This means that, although the company received £95 only, it will have to pay £100 ten years hence. The debt of £100 must, therefore, be acknowledged in the company's books, and the £5 discount must be treated as a temporary asset and debited to **Discount on Debentures Account,** and gradually written off by transfers to Profit and Loss Account, as in the case of Preliminary Expenses.

In many cases, the "discount" is spread over the term of years for which the debentures run, and the loss is thus apportioned over those years, which presumably have benefited by the employment of the money borrowed. Of course, if considered expedient, the "Discount on Debentures Account" can be written off over a shorter period than that covered by the "life" of the debentures.

Discount on debentures must be stated separately on the asset side of the Balance Sheet until written off.

An example of the issue of shares at a premium and the issue of debentures at a discount is subjoined—

Example.—The Brake Manufacturing Company, Ltd., issued on January 1, 19— 50,000 £1 Ordinary Shares, at a premium of 4*s*. per Share, and £40,000 5½ per cent. First Mortgage Debentures at 94, the Debentures being repayable "at par" (*i. e.* at their full nominal value) on the twentieth anniversary of the date of issue.

The securities are to be paid for as follows—

	SHARES.		DEBENTURES.
On *application*	10*s*. per share (including the 4*s*. premium)		£4 0 0 per cent.
On *allotment*	14*s*. ,,		£90 0 0 ,,
Total.........	24*s*. per share.	Total............	£94 0 0 per cent.

Show the necessary Journal entries to record the allotments of the two classes of securities and the Company's Balance Sheet after they have taken place. The Allotment duly took place on January 5, 19—, applications having been received for the exact amount of Shares and Debentures offered to the public.

JOURNAL

			£	s.	d.	£	s.	d.
19— Jan. 5	Application and Allotment Account (Shares) ....Dr.		60,000	0	0			
	To Share Capital Account					50,000	0	0
	,, Share Premium Account					10,000	0	0
	For the total amount due from sundry shareholders on application for, and allotment of, 50.000 £1 shares at the price of 24s. per share.							
,, 5	Sundries Dr.							
	To 5½ per cent. Debentures Account					40,000	0	0
	Viz. Application and Allotment Account (Debentures)............		37,600	0	0			
	Discount on Issue of Debentures Account		2,400	0	0			
	For cash receivable and discount on issue of £40,000 Debentures.							
			£100,000	0	0	£100,000	0	0

THE BRAKE MANUFACTURING COMPANY, LTD.

BALANCE SHEET as on January 7, 19—

LIABILITIES.	£	s.	d.	ASSETS.	£	s.	d.
Share Capital Issued— 50,000 Shares of £1 each	50,000	0	0	Cash	97,600	0	0
Share Premium Account	10,000	0	0	Discount on Issue of £40,000 5½ per cent. Debentures	2,400	0	0
5½ per cent. First Mortgage Debentures, repayable January 1, 19—	40,000	0	0				
	£100,000	0	0		£100,000	0	0

Forfeited Shares

Where a company issues shares which are to be paid for in instalments (*e. g.* so much on application, so much on allotment, and the balance as and when "called up" by the directors), it frequently happens that some shareholders fail to pay all the instalments due from them.

Practically all companies take power under their Articles to **forfeit** shares, and define the steps which must be taken prior to forfeiture.

A "forfeiture" of shares has the following results :—

1. The defaulting shareholder ceases to be a member.
2. His shares in the company lapse; whatever moneys have been paid on the shares prior to the forfeiture become the absolute property of the company.
3. The forfeiture is usually "without prejudice to the right of the company to sue the defaulting member for the calls he has failed to pay," and such member can generally therefore be sued for the calls notwithstanding the fact that he has ceased to be a member.
4. Forfeited shares are not *Cancelled* (this would amount to a reduction of capital), they are the property of the company, and the company may reissue them to any person willing to buy them on the undertaking of the purchaser to pay up the amounts unpaid by the previous holder (in which case the person so taking the forfeited shares gets the benefit of the sums paid by the defaulter), or for such higher price as the intending applicant for the shares may be willing to give. The only restriction as regards the price of reissue is that the company must have received from the defaulting member and the subsequent allottee, taken together, not less than the full face value of the shares.

The forfeiture of shares is a procedure of a penal nature as regards the defaulting member, and such measures, preliminary to forfeiture, as are prescribed by the company's Articles of Association must be followed with the utmost care, otherwise the forfeiture may prove invalid.

It will be remembered that in a company's books the instalments due on shares (whether for the moment in the company's hands, or outstanding as debts due to it from its members) are all credited in the Share Capital Account at the time of their falling due, and in anticipation of their receipt ultimately.

At the time of the forfeiture of a member's shares such sums as he has paid on them will be in the company's possession (debited to cash), and the amounts of which he is in default will be standing to the debit in the appropriate call account (representing the debt due from him to the company), and the total of these two items will have been credited, as already explained, to the Share Capital Account.

Upon the forfeiture of shares, therefore, the entries required are as under—

First. The Share Capital Account must be debited with the *whole* amount paid or due by the defaulting member on his Shares; this entry is needed because the issue of the Shares is now cancelled by the forfeiture.

Secondly. Forfeited Shares Account, or Amounts received on Forfeited Shares Account, must be credited with whatever amount has been paid on the shares prior to forfeiture.

This sum practically represents a profit made by the company, and so appears as a credit balance.

Thirdly. The amounts due from the defaulter on his shares but not paid must be credited to the respective Call Accounts upon which the liability of the shareholder appears to the debit. The effecting of this credit entry has the result of reversing the debit previously made in these accounts when the unpaid calls originally became due. Thus, if a member originally applied for 100 £1 shares and paid in all £75 thereon, and the shares were subsequently forfeited owing to the nonpayment of £25 final call, the position at the date of forfeiture would be that £100 would have been credited to the Share Capital Account and that £25 would appear to the debit on the Final Call Account.

The entry requisite to record the forfeiture would consequently be as follows—

Debit Share Capital with £100 (reversing the previous credit entry),

Credit Forfeited Shares Account with £75 (for the £75 previously paid on them, which £75 has now become the company's property),

Credit Final Call Account with £25 (thus causing the pre-existing debit balance of £25 on this account to disappear),

The necessary Journal entry would take the following form—

	£	s.	d.	£	s.
Share Capital ....Dr.	100	0	0		
To Sundries, viz.—					
Forfeited Shares Account				75	0
Final Call Account				25	0
In respect of 100 Shares, 15*s*. paid, now forfeited by the Board owing to nonpayment of the Final Call of 5*s*. per Share.					

In the Share Register, an account called "Forfeited Shares Account" should be opened, to which should be transferred the forfeited shares, thus closing the defaulting member's account. When the shares are reissued, they are then transferred to the new member's account, thus closing the Forfeited Shares Account.

Upon the reissue of any forfeited shares the entry passed in the financial books at the time of their forfeiture must be reversed; and, in making this entry, any payment made by the second allottee, over and above the amount of the calls left unpaid by the original allottee, must be placed to Share Premium Account. The amount of calls left unpaid at the date of forfeiture may be redebited at the time of reissue to the particular call account (or accounts) in question, or it may be debited in company with any premiums paid to the second allottee's personal account. So, if the directors of the company decide to reissue to A. Brown the 100 shares forfeited in the example given above, A. Brown paying the 5*s*. call left unpaid by the original allottee, plus a premium on reissue of 7*s*. 6*d*. per Share, the requisite Journal entry would be—

		d.		
Sundries Dr.				
To Sundries—				
Forfeited Shares Account				
A. Brown	10			
Share Capital Account				
Share Premium Account..................			37	10
For 100 Shares previously forfeited, 15*s*. per Share paid, now reissued to A. Brown at a premium of 7*s*. 6*d*. per Share, to be paid by him in addition to the outstanding call of 5*s*. per Share.				

Any amounts which have accrued to the company on shares forfeited by it should, pending the re-issue of the

shares, be shown in the Balance Sheet as a separate item on the Liability side : the amount must neither be merged in the Capital nor credited in the Profit and Loss Account, but should be regarded as an item held in suspense pending the possible reissue of the shares at a later date.

A company invariably sustains, at its inception, various items of expense arising out of its formation and issue, and these expenses are commonly treated in a somewhat special manner, being debited to an account styled **Preliminary Expenses Account (Formation Expenses.** This is a debit balance and represents a "fictitious asset." It would be unfair to charge the whole of it as an expense against the first year's trading profit, and it is permissible if thought fit to write it off by instalments, in which case the balance not yet written off *must* be shown as a separate item in the balance sheet. Alternatively, the account, being of a capital nature, may be written off at once against a capital profit (should one be available) : in particular, it may (as noted on p. 321), be written off against a "Share Premium Account."

In an examination exercise, Preliminary Expenses should be treated as an asset in the Balance Sheet at the amount at which they stand in the Trial Balance, *unless* specific instructions are given to write off a portion of them. Some candidates write amounts off Preliminary Expenses without any such instructions. Examinees should always confine their work to the actual instructions given in the exercise.

The expenses which are thus treated usually comprise some or all of the following—

1. Legal and other fees and stamps paid on the incorporation of the Company, and on the transfer to it of any property which it was formed to acquire.
2. Cost of printing and circulating the prospectus.
3. Cost of printing and circulating the allotment letters and call letters, including the impressed stamps on the former.
4. Cost of advertising the prospectus.
5. "Underwriting commission" paid on any Shares or Debentures underwritten (*i.e.* the subscription of which has been guaranteed by financiers and others, termed "underwriters"), and commission paid to persons procuring underwriting.

Such commissions must, however, be stated separately from the other Preliminary Expenses on each Balance Sheet of the company until written off.

6. "Brokerage" paid to stockbrokers introducing applicants whose application forms bear the broker's name.
7. Cost of the Share Certificates, Debenture Certificates, etc.

Certificate to Commence Business

A private company may commence business immediately it is incorporated. A public company, on the other hand, must not carry on any business or exercise any borrowing powers unless shares held subject to the payment of the whole amount thereof in cash have been allotted to an amount not less than the "minimum subscription," and every director has paid to the company on each of the shares taken or contracted to be taken by him, and for which he is liable to pay in cash, a proportion equal to the proportion payable on application and allotment on the shares offered for public subscription; and there has been registered with the Registrar of Companies a statutory declaration by the secretary or a director that the above conditions have been complied with. The Registrar thereon issues a certificate entitling the company to commence business.

If the company has not issued a prospectus, a Statement in Lieu of Prospectus must be registered before the certificate to commence business can be issued, but the provision regarding minimum subscription does not then apply.

Statutory Meeting

All companies incorporated under the *Companies Acts* must hold certain meetings of its members. The first of these meetings is called the Statutory Meeting, and must, except in the case of a private company (which need not hold this meeting), be held not less than one month nor more than three months from the date on which it is entitled to commence business. The object of this meeting is to give the members an opportunity to learn exactly what success or otherwise has attended the initial stages of the company, and to that end the directors must, at least seven days before the meeting, for-

ward to every member, and register with the Registrar of Companies, a **Statutory Report,** certified by at least two directors.

This Statutory Report must show :—

(1) The total number of shares allotted, distinguishing those issued for a consideration other than cash, and stating the amounts credited as paid up on such shares and showing the consideration.

(2) The total amount of cash received on each class of share.

(3) An abstract of the receipts and payments of the company up to a date within seven days of the report, distinguishing receipts from shares and debentures and other sources, the payments made thereout, and particulars of the balance remaining in hand, and an account or estimate of the preliminary expenses.

(4) The names, addresses and descriptions of the directors, auditors (if appointed), managers (if any), and secretary.

(5) Particulars of any contract that the directors propose to ask the meeting to modify.

The auditors are required to certify the report so far as it relates to the shares allotted, the cash received on such shares, and the receipts and payments on capital account.

The members can discuss the affairs of the company at the meeting, and may adjourn the meeting to a later date if they wish any action to be taken, such as appointing new directors or making any other changes in connection with the company.

Other Company Meetings

A general meeting of every company must be held once at least in every calendar year, and not more than fifteen months after the last preceding meeting. This meeting is called the **Annual General Meeting** and is an **Ordinary** meeting of the members. Any meetings called between these ordinary meetings are known as **Extraordinary General Meetings.**

In order to constitute a valid meeting, proper notice must be given to those entitled to attend, as required by the Articles. S. 133 provides that, as regards the

Annual General Meeting, the notice must be given at least twenty-one days beforehand. As regards other meetings, fourteen days notice is sufficient unless the meeting is to consider a Special Resolution (as to which see below).

At these meetings, the members signify their will by voting on motions put to them by the directors or by members, and when these *motions* are duly carried by the members they become *Resolutions* of the company.

Resolutions

Resolutions are, in general, of three kinds, Ordinary, Extraordinary, and Special.

An **Ordinary Resolution** is one passed by a simple majority of those who vote.

An **Extraordinary Resolution** is one passed by a majority of not less than three-quarters of such persons as, being entitled so to do, vote in person, or where proxies [*i. e.* voting by representative] are allowed, by *proxy*, at a general meeting of which notice specifying the intention to propose the resolution as an extraordinary resolution has been duly given.

A **Special Resolution** is one passed by such a majority as is required for the passing of an extraordinary resolution and at a general meeting of which not less than twenty-one days' notice, specifying the intention to propose the resolution as a special resolution has been duly given. If all the persons entitled to attend and vote so agree, the fact that the notice was less than twenty-one days will not invalidate the proceedings.

Alterations to Share Capital

A company, if so authorised by its Articles, may alter its share capital in certain ways, viz. :—

(*a*) Increase the nominal capital by creating new shares. In this case, no entries are required in the books until the new shares are issued. The payment of the necessary stamp duties will be debited to an "Expenses of Increase of Capital Account" and be written off as soon as possible.

(*b*) Consolidate and divide all or any of its share capital into shares of larger amount, *e. g.* convert 1,000 shares of £1 each into 100 shares of £10 each.

It is usual to record such an alteration by closing the Share Capital Account and reopening it, as shown by the following Journal entry :—

			£	s	d	£	s.
19—							
Jan. 15	£1 Share Capital Account...............Dr.		1,000	0	0		
	To £10 Share Capital Account............					1,000	0
	For Consolidation of 1,000 Shares of £1 each into 100 shares of £10 each in accordance with resolution passed by the company in General Meeting held on January 15th, 19—.						

The Register of Members also requires amendment to bring it into line with the revised holdings, as to number of shares, distinctive numbers, and amounts credited as paid. In the above example fully paid shares are dealt with.

(*c*) Convert fully paid shares into stock, and reconvert stock into fully paid shares. The entries are similar to those described under (*b*) above.

(*d*) Subdivide shares into shares of smaller amount, *e. g.* convert 1,000 £1 shares, 15*s*. paid, into 20,000 1*s*. shares, 9*d*. paid. The entries are as in (*b*).

(*e*) Cancel nominal capital which has not been issued, thus reducing the nominal capital without affecting the issued capital. No entries are required in the books. Such a course would be extremely rare in practice : it is hard to see what useful purpose could be served and the effect would be to forfeit the amount of stamp duty that had originally been paid on the nominal capital in question.

All the above alterations can only be made by a resolution of the shareholders in general meeting, *i. e.* an ordinary resolution unless the Articles require an extraordinary or special resolution for the purpose.

Reduction of Capital

When a company wishes to reduce its share capital, it must pass a special resolution and obtain the sanction of the Court. A company may wish to do this for a variety of reasons, of which the most usual are :—

(1) Where it has large cash resources permanently in excess of its requirements, and it is desired to repay to the members part of their capital contributions.

(2) Where it is desired to free the members from liability for uncalled capital.

(3) Where the company has accumulated a large debit balance on Profit and Loss Account, and the assets are over-valued, with no hope of re-establishing the company until its affairs are readjusted by writing off the accumulated losses and writing down the over-valued assets, which can only be done by reducing the capital.

Reduction of capital is a serious step, and in order to prevent a company from carrying it out without adequate safeguards, and possibly to the detriment of some of its members or creditors, the Act requires the company to petition the Court, so that the Court may ensure that all parties are safeguarded.

Example.—The Balance Sheet of the Uprichard Co., Limited, as at September 30th, 19—, was as follows :—

	s. | *d.*		
Capital: authorised, issued and fully paid: 15,000 Shares of £1 each	15,000	Goodwill	3,000
Creditors	7,000	Plant and Machinery	5,000
Bank Overdraft	1,000	Stock	4,800
		Debtors	1,200
		Profit and Loss Account	9,000
	£23,000		£23,000

On October 1, the company passed a special resolution, which was duly confirmed by the Court, to carry out the following reduction scheme :—

(1) The shares to be reduced to 1*s.* each, fully paid.

(2) The whole of the Goodwill, and the debit balance of the Profit and Loss Account to be written off; Plant and Machinery to be reduced to £4,000; Stock to be reduced by £800; and a Reserve for Bad and Doubtful Debts to be created to the extent of £450.

The entries arising out of the scheme are as follows :—

JOURNAL

	£	s.	d.	£	s.	d.
Share Capital Account ....Dr.	14,250	0	0			
To Capital Reduction Account				14,250	0	0
For reduction of the company's share capital of 15,000 shares of £1 each, fully paid, to 15,000 shares of 1*s.* each, fully paid, in accordance with the special resolution passed on October 1, 19—, and sanctioned by the Court on						
Capital Reduction Account ....Dr.	14,250	0	0			
To Goodwill Account				3,000	0	0
Profit and Loss Account				9,000	0	0
Plant and Machinery Account ...				1,000	0	0
Stock Account				800	0	0
Reserve for Bad and Doubtful Debts Account				450	0	0
For sundry amounts written off and creation of Reserve in accordance with the above scheme.						

BALANCE SHEET after the Scheme has been carried out

		s.	d			£	s.
Capital: authorised, issued and fully paid: 15,000 shares of 1*s.* each (reduced by Order of Court from shares of £1 each)				Plant and Machinery, at cost *less* amounts written off		4,000	0
Creditors	7,000			Stock		4,000	0
Bank Overdraft	1,000			Debtors	£ 1,200 0 0		
				Less Reserve for Bad and Doubtful Debts	450 0 0		
						750	0
	£8,750	0	0			£8,750	0

Profits Prior to Incorporation

A company formed to purchase an existing business sometimes agrees to take it over as from the date of the last Balance Sheet, which date is prior to the date of incorporation of the company. In order to obviate the necessity of taking stock at the date of incorporation it is usual in such cases to make up the Profit and Loss Account to the usual accounting date, and not to the anniversary of incorporation. The Profit and Loss Account will thus cover two periods (1) prior to, and (2) after, incorporation.

As the company was not in existence during this prior period, it is legally impossible for it to have made profits,

and the proportion of profits, earned in the period prior to incorporation must, therefore, be regarded as an accretion to the assets taken over, and capitalised. In other words it is a capital profit.

In order to arrive at the profits prior to incorporation, the profits for the year must be apportioned between the two periods. The apportionment is usually made on a time basis, or on a basis of the sales for the periods prior and subsequent to incorporation, or a combination of these bases may be adopted. Items such as rent, which do not vary with the amount of sales are apportioned on a time basis; items such as carriage outwards, which vary with sales, are apportioned on the basis of sales. If any item, *e. g.* director's fees, belongs entirely to one period, it must be adjusted accordingly.

Example.—Blanks Limited was incorporated on 1st March, 19—, to take over the business of Blank as from the previous 1st January. The profits for the year to 31st December amounted to £1,000 after charging directors' fees of £800. The sales to 1st March were £3,000, and for the whole year £15,000.

Adopting a time basis, the profits prior to incorporation amount to two-twelfths of £ (1,000 + 800) = £300; those subsequent to incorporation to ten-twelfths of £1,800, *minus* £800 = £700. Directors' fees are thus charged wholly to the period following incorporation.

Adopting a sales basis the amounts would be one-fifth of £1,800 = £360 prior, and four-fifths of £1,800, *minus* £800 = £640 subsequent, to incorporation.

In the Balance Sheet, profits prior to incorporation should be shown as a Capital Reserve Account, or be deducted from Goodwill. It may be that it will be found that a loss was incurred in the period prior to the incorporation of the company. Such a loss will be a capital loss: there is, of course, no possible objection to its being written off either at once, should there happen to be any credit balance available for the purpose, or against future profits. If it cannot be written off it may be regarded and treated as Goodwill. The company's directors will no doubt have been aware of the fact of the loss, though possibly not of its exact amount, at the time the company was formed, and should have allowed for it in fixing the price to be paid for the net assets acquired by deducting the amount from any sum to be paid for Goodwill: thus the addition of the loss when brought into the

books should raise the Goodwill account to the amount which would have been paid for it had no loss been anticipated.

Books and Accounts

The statutory requirements under the Act of 1948 are very much more stringent than they were previously, especially as regards the published Accounts, in which a great deal of detailed information, some of which was often set out in the past voluntarily, is now compulsory. As regards the books, the 1929 Act provided that proper books of account must be kept, but left it to the officers of the company to decide exactly what books would be necessary to fulfil this requirement: in practice it was extremely rare for any difficulty to arise because the ordinary commercial books, if properly kept, were fully ample. The Act of 1948 makes the statutory requirement slightly more precise by saying that "proper books of account shall not be deemed to be kept if there are not kept such books of account as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions." More detailed requirements would seem to be impossible because of the enormously varied nature of the transactions carried on by different types of businesses.

As regards the published accounts, however, requirements are very much more precise.

Under the Act of 1929 it was necessary to state :—

(1) The general nature of the liabilities and assets of the company.
(2) The amounts of the fixed assets, stating how the values of such assets have been arrived at.
(3) The amounts of the floating assets.
(4) So far as they are not written off :—
  (*a*) The preliminary expenses.
  (*b*) Any expenses incurred in connection with any issue of shares or debentures.
  (*c*) The amount of the goodwill, patents and trade-marks (unless these cannot be ascertained).
  (*d*) Any commission paid in connection with the issue of shares.
  (*e*) Any discount on debentures.

(5) A statement that a certain liability is secured on any asset of the company, where such is the case. (The particular asset in point need not be stated.)

(6) Certain particulars relating to shares issued at a discount, and to Redeemable Preference Shares.

(7) Loans (if any) to directors.

(8) The amount of debentures which have been redeemed but are still available for reissue.

The Act of 1948 requires the disclosure of a considerable amount of additional information. Sec. 149 lays down that " every balance sheet of a company shall give a true and fair view of the state of affairs of the company as at the end of its financial year, and every profit and loss account of a company shall give a true and fair view of the profit or loss of the company for the financial year," and prescribes that these shall comply with the requirements of the Eighth Schedule to the Act. The more important requirements of this schedule (apart from those already mentioned above) are the following :—

As regards the Balance Sheet.

(9) There must be summarised the authorised share capital, the issued share capital, liabilities and assets, with such particulars as are necessary to disclose the general nature of the assets and liabilities.

(10) The reserves, provisions, liabilities and fixed and current assets are to be classified under headings appropriate to the company's business (for the definition of a " provision " see p. 338).

(11) Fixed assets must be distinguished from current assets.

(12) The method(s) used to arrive at the amount of the fixed assets must be stated.

(13) The method of arriving at the value of any fixed asset (with certain stated exceptions) is to be the difference between the cost and the aggregate amount of depreciation written off since acquisition. But if the cost of any fixed assets bought before 1948 " cannot be obtained without unreasonable expense or delay " there is to be stated instead the book value of such assets as on July 1, 1948, and this is to be

treated as though it were a valuation made on that date. Where a part of such assets are sold, the balance (after deducting the proceeds of sale) is to be treated as a valuation of the remaining assets.

The aggregate cost (including any "valuation" as above where appropriate) and aggregate depreciation must be stated separately.

(14) If in respect of any class of fixed asset provision for replacement is being made by making provision for renewals and charging the cost of replacement against such provision, it is necessary to state the means by which the replacement is provided for and the aggregate amount of the provision.

(15) There must be stated under separate headings the respective amounts of capital reserves, revenue reserves and provisions (other than provisions for depreciation for renewals). (For definitions of these terms, see p. 339.)

(16) There must be stated (unless the information appears in the profit and loss account) the sources from which any increases in the several classes of reserves and provisions are derived, and in the cases of decreases the application of the amounts in question.

(17) The aggregate amount of any bank loans or overdrafts must be separately stated.

(18) The balance sheet must show separately the net aggregate amount (*i.e.* less income tax) which is recommended for distribution by way of dividend.

There are also requirements as to information regarding the company's investments and the basis of computing the company's income tax liability. These, together with some other matters of less general importance, are not dealt with here.

As regards the Profit and Loss Account.

There are to be shown (*inter alia*) :—

(19) The amount charged to revenue by way of provision for depreciation or renewal of fixed assets.

(20) The amount set aside to provisions other than the above, or withdrawn from such provisions and applied for some other purpose.
(21) The amount set aside to, or withdrawn from, reserves,
(22) The amount of interest on the company's debentures and other fixed loans,
(23) The amounts respectively provided for the redemption of share capital and the redemption of loans,
(24) The amount of the charge for United Kingdom income tax and other U.K. taxation on profits, distinguishing between income tax and other taxation,
(25) The amount of income from investments, and
(26) The aggregate amount of the dividends paid and proposed.

Other miscellaneous requirements laid down by the Eighth Schedule are that it is necessary to show :—

(27) Except in the case of the first profit and loss account laid before the company after 1st July 1948, the corresponding figures for the preceding financial year, and
(28) " Any material respects in which any items shown in the profit and loss account are affected " by (*a*) any transactions of an exceptional nature, or (*b*) any change in the method of accounting.

S. 196 lays down that there must be shown, either in the accounts themselves or in a statement annexed thereto, the amount of the directors' " emoluments." The expression " emoluments " as here used is defined as including both fees paid to a director as such, amounts paid for any other services rendered (*e.g.* for acting as secretary or manager) and expense allowances so far as not allowable for income tax.

DEFINITIONS. The following are included in the Eighth Schedule, part IV :—

Provision means any amount written off or retained by way of providing for depreciation or renewal of assets or

retained by way of providing for any known liability of which the amount cannot be determined with substantial accuracy.

Note.—It follows that a liability which is exactly known (*e.g.* a quarter's rent accrued, debenture interest accrued, etc.) is not a "provision" but a "liability" and must be included in the balance sheet under that heading.

Reserve. This expression must *not* be used in a sense including any of those defined as included in the definition of provision.

Capital Reserve. This is not to include "any amount regarded as free for distribution through the profit and loss account."

Revenue Reserve. This means "any reserve other than a capital reserve."

If the company holds a controlling interest in one or more other companies, all the companies are known collectively as a group, and the controlled companies are known as subsidiary companies. In the published accounts of the principal company certain information has to be given regarding the subsidiaries, in particular as to the cost to the holding company of the shares acquired, loans to the subsidiaries, and the manner in which the profits or losses of the subsidiaries have been dealt with in the accounts of the principal company: further, there must be published a profit and loss account and balance sheet of the group as a whole. These accounts are known as a Consolidated Profit and Loss Account and a Consolidated Balance Sheet respectively. The preparation of a Consolidated Balance Sheet, especially where there are a number of subsidiaries and the principal company does not own the whole of their shares, may present accountancy problems of considerable intricacy, and is one of the most difficult problems an accountant may be called on to deal with. Beyond this it is not proposed to deal with group accounts here.

A model Profit and Loss Account and Balance Sheet complying with the requirements of the Acts and illustrating the greater number of the provisions set out above is set out on pp. 682–5.

RAYON D'OR, LIMITED.

BALANCE SHEET as at 31st December, 19—

CAPITAL AND LIABILITIES.	£	s.	d.	£	s.	d.
Share Capital :						
Authorised—						
10,000 7½% Preference Shares of £1 each				10,000	0	0
10,000 8% Redeemable Preference Shares of £1 each				10,000	0	0
200,000 Ordinary Shares of 2*s.* each				20,000	0	0
200,000 Deferred Shares of 1*s.* each				10,000	0	0
				£50,000	0	0
Issued—						
10,000 7½% Preference Shares of £1 each 15*s.* paid				7,500	0	0
10,000 8% Redeemable Preference Shares of £1 each, fully paid, redeemable on or before 31st December, 19—				10,000	0	0
100,000 Ordinary Shares of 2*s.* each, fully called....................................	10,000	0	0			
Less : Calls in Arrear....................	200	0	0			
				9,800	0	0
200,000 Deferred Shares of 1*s.* each, fully paid				10,000	0	0
				37,300	0	0
6% Mortgage Debentures	30,000	0	0			
Less : Redeemed and available for reissue...	10,000	0	0			
				20,000	0	0
Sundry Creditors:						
Trade Creditors	1,200	0	0			
Creditors holding security over assets.........	2,000	0	0			
Due to Subsidiary Companies	1,000	0	0			
Creditors on other accounts	600	0	0			
				4,800	0	0
Reserve Account				10,000	0	0
Profit and Loss Account:						
Balance as at 1st January	8,000	0	0			
Less : Dividends paid	4,500	0	0			
	3,500	0	0			
Add : Profit for year	5,000	0	0			
				8,500	0	0
				£80,600	0	0

ASSETS.	£	s.	d.	£	s.	d.
Goodwill, Patents and Trade Marks, at Cost				7,000	0	0
Land and Buildings, at cost				20,000	0	0
Plant and Machinery, at cost	15,900	0	0			
Less : Depreciation written off at 10% per annum on each machine from the date of its acquisition	3,900	0	0			
				12,000	0	0
Furniture, Fixtures and Fittings, at cost	500	0	0			
Less : Amounts written off from time to time	200	0	0			
				300	0	0
Loose Plant, as valued by the Works Manager				800	0	0
Shares in Subsidiary Companies, at Cost				26,000	0	0
Stock in Trade, as valued by Managing Director				5,000	0	0
Sundry Debtors : £ s. d.						
Trade Debtors 3,800 0 0						
Less : Reserve for Doubtful Debts 200 0 0						
	3,600	0	0			
Amounts owing by Subsidiary Companies	1,500	0	0			
Loans to Directors and Officers of the Company— £ s. d.						
As at 1st January 3,000 0 0						
Advanced since 1,000 0 0						
4,000 0 0						
Less : Repaid during year 3,000 0 0						
	1,000	0	0			
Payments in advance	100	0	0			
				6,200	0	0
Preliminary Expenses, less amounts written off	200	0	0			
Discount on Debentures do.	900	0	0			
Commission on Shares do.	100	0	0			
				1,200	0	0
Bank Balance and Cash in hand				2,100	0	0
				£80,600	0	0

Note.—This Balance Sheet does *not* comply fully with the Companies Act 1948

Dividends

When profits are divided, that proportion of them to which each shareholder is entitled is termed a "dividend." Subject to the provisions of the Articles, dividends on preference shares are generally declared by the directors subject to their being satisfied that profits are sufficient, either immediately the dividend becomes due (in accordance with the terms of issue, etc.) or sometimes after such interval as may be necessary to ascertain the trading results: preference dividends are almost always paid half yearly.

As regards the ordinary shares, practice varies. Some companies wait till the accounts for the year have been prepared: the directors then recommend a dividend, (which *must* be shown in the profit and loss account (see p. 338): on confirmation by the members at the annual general meeting before which the accounts are laid, and not before, the dividend becomes payable. It is generally paid immediately after the meeting but occasionally (especially in private companies) the actual payment is deferred till some time later. Under the Articles of most companies directors have power to declare and pay, on their own responsibility, "interim dividends." An "**Interim Dividend**" is one which is declared before the close of a financial period and is "on account of" the profits of the period: it should be at a conservative rate and of course the directors must be satisfied that profits are ample to cover the amount. Dividends may not be declared unless sufficient profits have been made to cover them, but debenture interest, being interest on a loan, must always be paid whether profits are sufficient to cover the amount due or not, otherwise the company will "make default," and thereby entitle the debenture holders to enforce their security.

Statutory Returns and Books

An Annual Return containing the names, addresses and holdings of the shareholders, together with other particulars, has to be transmitted to the Registrar of Companies, made up to a date fourteen days after the first, or only general meeting in each year.

In addition to the Books of Account and the **Registers** already mentioned, a company is required to keep a **Register of Charges,** and **Minute Books,** the first showing particulars of all mortgages and charges given by a company over its property; the second recording the proceedings at (*a*) directors' meetings and (*b*) company meetings. These statutory books, except the Account Books and Directors' Minute Book, are open to the inspection of the members, and, with the further exception of the Minute Book of general meetings, of other persons (usually subject to a fee not exceeding one shilling). Lists of Allotments, copies of the Debenture Bonds issued, and of the Annual Returns are also required by law. Over and above these requirements the exigences of administration usually demand that a company shall keep various Statistical Books, together with a **Directors' Attendance Book, Agenda Book,** and other books concerning the secretarial department.

Reconstructions and Amalgamations

For various reasons, *e.g.* to enable the company to undertake new classes of business, to divide its various undertakings into separate concerns, to compromise with creditors, to raise fresh capital under new conditions, and the like, a company may decide to **reconstruct,** in which case the existing business is sold to a new company formed for the purpose, and the old company is wound up as indicated hereafter (*see p.* 345).

Or, it may be decided to **amalgamate** with other companies in order to bring the various activities under one control. In this case too, each company will sell its business to a new company formed for the purpose.

Or again, the business may be **absorbed** by another company already in existence.

In all these cases, the method of closing the old company's books is similar to the dissolution of a partnership. **The assets and liabilities** which are **taken** over are transferred to a Realisation Account. Those balances representing the interests of the proprietors, *i.e.* Share Capital, Reserve Accounts, and Profit and Loss Account, are transferred to a Sundry Shareholders' Account. The consideration is credited to Realisation Account and debited to Purchasing Company Account.

The profit or loss on Realisation Account is transferred to Sundry Shareholders' Account. When the consideration is received, Sundry Shareholders' Account is debited and Purchasing Company Account credited, thus closing the books—the consideration being divided among the members according to their respective interests in the company.

In the books of the purchasing company, the entries are similar to those already given at p. 300 for the purchase of a business.

Example.—The Balance Sheet of X Limited on the 30th June, 19—, was as follows :—

	£	s.	d.		£	s.	d.
Share Capital:				Land and Buildings	4,000	0	0
Authorised, issued and fully paid—				Plant and Machinery ...	3,000	0	0
10,000 Shares of £1 each	10,000	0	0	Stock	3,400	0	0
Sundry Creditors	2,000	0	0	Sundry Debtors £2,800 0s. 0d.			
Reserve Account	1,000	0	0	*Less* Provision for Bad Debts ...... £200 0s. 0d.	2,600	0	0
Profit and Loss Account	1,500	0	0	Bills Receivable	700	0	0
				Cash	800	0	0
	£14,500	0	0		£14,500	0	0

It was agreed to sell the assets to the Y Company (who were also to discharge the liabilities) for the sum of £16,000, to be satisfied by the issue of 10,000 fully paid shares of £1 each at a premium of 4*s.* per share, and the balance in cash. X Limited then distributed those assets *pro rata* among their shareholders. Show the entries in the books of both companies and the Balance Sheet of Y Company, Limited, after the scheme has been completed. Assume that Y Company, Limited, before taking over X Limited had an authorised capital of £40,000 in £1 shares, of which 30,000 had been issued and fully paid; that its creditors amounted to £10,000; its Profit and Loss Account balance to £5,000; its Sundry Assets to £40,000; and its cash £5,000. Ignore expenses of carrying out the scheme.

BOOKS OF X LIMITED.

REALISATION ACCOUNT

		£	s.	d.			£	s.	d.
19— June 30	To Sundry Assets taken over by Y Company, Ltd., viz.:				19— June 30	By Sundry Creditors taken over	2,000	0	0
	Land and Buildings	4,000	0	0		,, Y Company, Ltd.	16,000	0	0
	Plant and Machinery	3,000	0	0					
	Stock	3,400	0	0					
	Sundry Debtors ...	2,800	0	0					
	Bills Receivable	700	0	0					
	Cash	800	0	0					
	Profit carried to Sundry Shareholders' Account	3,300	0	0					
		£18,000	0	0			£18,000	0	0

Y COMPANY, LIMITED

		£	s.	d.			£	s.	d.
19— June 30	To Realisation Account—consideration as agreed	16,000	0	0	19— June 30	By Sundry Shareholders: 10,000 Shares of £1 each at 24*s.*	12,000	0	0
						Cash	4,000	0	0
		£16,000	0	0			£16,000	0	0

SUNDRY SHAREHOLDERS' ACCOUNT

		£	s.	d.			£	s.	d.
19— June 30	To Y Company, Ltd.	12,000	0	0	19— June 30	By Share Capital Account ...	10,000	0	0
	,, Cash.........	4,000	0	0		,, Reserve Account ...	1,000	0	0
						,, Profit and Loss Account	1,500	0	0
						,, Provsn. for Bad Debts Account ...	200	0	0
						,, Realisation Account ...	3,300	0	0
		£16,000	0	0			£16,000	0	0

BOOKS OF Y COMPANY, LIMITED.

JOURNAL

		£	s.	d.	£	s.
19— June 30	Sundries: Dr.					
	To Sundries—					
	Goodwill	3,300	0	0		
	Land and Buildings	4,000	0	0		
	Plant and Machinery	3,000	0	0		
	Stock	3,400	0	0		
	Sundry Debtors	2,800	0	0		
	Bills Receivable	700	0	0		
	Cash	800	0	0		
	Sundry Creditors				2,000	0
	X Limited (vendors)				16,000	0
	For assets, liabilities and purchase consideration on taking over the business of X Limited, pursuant to the purchase agreement of June 30, 19—.					
	X Limited Dr.	16,000	0	0		
	To Share Capital Account				10,000	0
	Premium on Share Capital Account				2,000	0
	Cash				4,000	0
	For shares issued to the vendors credited as fully paid at a premium of 4*s.* per share and cash in settlement of the purchase consideration pursuant to the agreement of June 30, 19—.					

BALANCE SHEET, as at July 1, 19—

	£	s.	d.		£	s.	d.
Share Capital: authorised, issued and fully paid— 40,000 Shares of £1 each	40,000	0	0	Sundry Assets	40,000	0	0
Premium on Share Capital Account	2,000	0	0	Goodwill, at cost	3,300	0	0
Sundry Creditors	12,000	0	0	Land and Buildings, at cost	4,000	0	0
Profit and Loss Account	5,000	0	0	Plant and Machinery, at cost	3,000	0	0
				Stock	3,400	0	0
				Sundry Debtors	2,800	0	0
				Bills Receivable	700	0	0
				Cash	1,800	0	0
	£59,000	0	0		£59,000	0	0

Liquidation

When it is necessary for the company to be wound up, either in pursuance of a scheme of reconstruction, amalgamation or absorption, as indicated above, or because, in the fulness of time, it has come to the end of its period of activity, whether through gradual decline, unfavourable environment, internal mismanagement, lack of success, or (a frequent cause in the case of mining companies) it has spent all its money, the services of a **Liquidator** are called in. It is the Liquidator's business to wind up the concern, pay its creditors as far as

the assets will permit, and make such return of capital to the shareholders as may be possible in the circumstances. In cases where a company has issued Mortgage Debentures, the debenture holders are entitled to apply for the appointment, by the High Court, of an officer termed a **Receiver** (usually a professional accountant, nominated for the purpose), whose duty it is to seize, and hold, on their behalf, such portions of the company's property as are charged by the Debentures, or by the Trust Deed covering them, and to realise the property under the directions of the Court in order to effect the distribution of its proceeds among the debenture holders.

It thus happens that there are sometimes two officials, the Liquidator and the Receiver, concerned in winding up an insolvent company. In such a case the Receiver for the debenture holders is usually able to seize the larger portion of the assets under the power conferred by the debentures, and the Liquidator has very little to do until the debentures have been paid off. The offices of Receiver and Liquidator are sometimes advantageously conferred upon one person, and it has been judicially stated that the appointment of one person to hold the two offices is desirable.

A Liquidator may be appointed either by the High Court or by the County Court, in a **Compulsory** winding up; or by the creditors and the shareholders of the company in a **Creditors' Voluntary** winding up; or by the shareholders, in a **Members' Voluntary** winding up. Complicated official forms are provided for the account keeping of the Compulsory Liquidator, but the Voluntary Liquidator's accounts may be compiled and rendered much according to his discretion.

At the close of a voluntary liquidation the Liquidator must render, in summarised form, an account showing the process of winding up; the statement prepared for this purpose is rendered in the form of a Cash Account. An illustration of such an account is subjoined.

Example.—The Alpha Steamship Company, Ltd., went into voluntary liquidation on January 4, 19—. From the following particulars prepare the Liquidator's Realisation Account for submission at the final meeting of Shareholders.

	£	s.	d.
Proceeds of sale of ss. *Alpha*	5,027	16	0
Proceeds of sale of materials and stores .	109	17	2
Sundry Debts recovered	269	16	9
Sundry Assets realised	11	0	0

	£	s.	d.
Law Costs	102	17	9
Liquidator's remuneration and disbursements	157	10	0
Insurance on sundry assets . . .	1	0	4
General Expenses of liquidation . .	24	17	6
Unsecured Creditors paid in full . . .	642	19	0
Debentures paid in full—			
Principal, £1,500; accrued interest, £39 5*s*. 4*d*.	1,539	5	4
Preference Shares—			
Capital repaid in full	2,500	0	0
Ordinary Shares—			
Returned to Shareholders at rate of 10*s*. per Share on 900 shares of £10 each . .	450	0	0

THE ALPHA STEAMSHIP COMPANY, Ltd.,
in Liquidation

Liquidator's Summary of Accounts

RECEIPTS.	£	s.	d.	PAYMENTS.	£	s.	d.
Proceeds of Property realised—				Expenses of Liquidation—			
				Law Costs	102	17	9
ss. *Alpha*	5,027	16	0	Liquidator's Fee and Disbursements	157	10	0
Stores and Materials	109	17	2	Insurance	1	0	4
Sundry Debtors	269	16	9	General Expenses.........	24	17	6
Sundry Assets	11	0	0	Debentures repaid in full	1,500	0	0
				Interest thereon	39	5	4
				Unsecured Creditors paid in full	642	19	0
				Capital returned to Shareholders—			
				Preference Shares, Capital repaid in full	2,500	0	0
				Ordinary Shares, return of 10*s*. per Share on 900 Ordinary Shares of £10 each	450	0	0
£	5,418	9	11	£	5,418	9	11

Shareholders can obtain further information on application to the undersigned,

HENRY HARROW, F.C.A.,
Liquidator

349 St. William's Chambers, London, E.C.
June 30, 19—

EXERCISES.

16A.

1. What is meant by an "Incorporated Company"?

2. Compare (1) Limited Liability Companies, (2) Unlimited Liability Companies, (3) Commercial partnerships, as regards the position of their members.

3. Explain the terms: Authorised Capital, Issued Capital, Paid-up Capital, Memorandum of Association.

4. What are the numerical limits of membership—

(*a*) Of banking partnerships?
(*b*) Of other partnerships?

5. What is meant by a "private company"? Discuss its advantages.

6. Explain the terms: Shares, Preference Shares, Cumulative Preference Shares, Ordinary Shares, Deferred Shares. Out of what circumstances do the latter usually arise?

7. What is the difference between Shares and Stock?

8. What are "Debentures"? Discuss briefly the legal position of the Debenture holders of a Company as compared with the shareholders' legal position.

9. Explain the terms: Directors, Prospectus, Allotment.

10. How does a holder of a Debenture Bond payable to Bearer obtain payment of his periodical interest?

16B.

1. Explain in detail the procedure and the transactions consequent upon a Company making a public issue of a portion of its Share capital.

2. Can (*a*) Shares and (*b*) Debentures be issued in exchange for a consideration other than cash? Can either of these classes of securities be issued "at a discount"? Explain what is meant by the last expression.

3. What is meant by issuing Shares and Debentures "at a premium"? How should such premiums be treated in the books of a Company?

4. Discuss the question of Goodwill in its relation to Joint Stock Company accounts.

5. What books are kept by a Company to record the interests in it of its various members? Do such books form an integral part of its system of accounting?

6. Explain the nature of a "Forfeiture of Shares for non-payment of calls," and the subsequent "Reissue" of such shares "at a premium."

7. Can (1) Dividends on shares, (2) Debenture interest, be legally paid by a Company which is losing money continuously on its trading operations and possesses no accumulated profits earned in past years?

8. Explain generally what is meant by (*a*) Compulsory liquidation, (*b*) Voluntary liquidation.

9. What is a "Receiver for Debenture holders"? What are his duties?

10. What is the maximum of the liability of a member of an Unlimited Liability Company?

16C.

The Exotic Mining Company, Ltd., with an authorised capital of £50,000, undertook on June 1, 19—, to buy the "Exotic" and "Eldorado" gold mining claims from the General Agency Company, Ltd., for £10,000, payable as to £1,000 in cash, as to £4,000 in fully-paid Ordinary Shares, taken at par, and as to £5,000 in 6 per cent. First Mortgage Debentures.

On June 7, 19—, the Company offered for subscription 40,000 £1 Ordinary Shares at a premium of 2*s*. per share, payable 5*s*. per share (including 2*s*. premium) on application, 5*s*. per share on allotment, and the balance of 12*s*. per share on July 15, 19—.

Applications were received for 35,950 shares, all of which were

allotted on June 10, 19—. All allotment moneys were duly paid on June 14, 19—.

The purchase agreement was carried out on June 10, 19—, the requisite allotments of Shares and Debentures and the payment of cash then being made.

All shareholders, except one holding 100 shares, duly paid the calls due on July 15.

The shares belonging to the defaulting member were declared to be forfeited by the Board on July 31, and were reissued by the Board on August 7 to the chairman (the Hon. Hugo Porter, M.P.), on his paying in cash the 12*s*. per share left unpaid by the original allottee.

Pass these transactions through the Company's books of account, and prepare a Balance Sheet at their conclusion.

16D.

Robert Coe, of Fairvale, Somerset, potato grower, applied on January 1, 19—, for 1,000 shares in the Erratic Motor Omnibus Company, Ltd., issued at par, paying 2*s*. per share on application.

These 1,000 shares were allotted to him on January 3, 19—, numbered 180365 to 181364, and he duly paid the allotment instalment of 8*s*. per share on January 4.

On January 5 he bought a further 1,000 shares, 10*s*. paid, numbered 24062 to 25061 on the Stock Exchange at a price of 11*s*. per share, free of stamps and brokerage, the transfer for the same being lodged with the Company on January 5, and approved by the Board the same day.

On January 16 he paid the First Call of 10*s*. a share on his 2,000 shares, thus making them fully paid.

On February 5 he sold the whole of his holding on the Stock Exchange at 18*s*. per share, free of stamps and brokerage, the transfer being lodged with the Company and approved by the Board on February 10.

Show a ruling of a Share Ledger and a Transfer Register for the Company, inserting in the latter the details of the foregoing transactions as far as they apply, and giving in the former R. Coe's account as a member of the Company.

Also show R. Coe's Investment Account as it would appear in his own Ledger, assuming that the purchases and sales of shares were paid for on the day of their occurrence.

Answers—

16C. Balance Sheet totals, £48,545; Cash Balance, £38,545.
16D. R. Coe's Investment Account: Loss, £250.

INTEREST COUPON

The Rayon D'Or Company, Ltd.

Debenture No. 189. ***Interest Coupon No.*** 10

For THREE Pounds (*less* income tax), Half-year's interest due the 1st day of January, 1933, and payable at the WESTMINSTER BANK, LTD., Lothbury, London, E.C., or at the Registered Office of the Company.

£3.

CHAPTER XVII

SELF-BALANCING LEDGERS

IN the case of a small business a single Ledger frequently suffices to contain all the Ledger accounts necessary for a complete system of Double Entry book-keeping, and this Ledger, coupled with the Cash Book, provides the necessary material for the construction of a Trial Balance in the ordinary way.

As soon, however, as a business grows in size and the transactions multiply in number, some subdivision of the Ledger becomes necessary; otherwise the volume of the entries will eventually exceed the accommodation available within the limits of a single book.

The usual subdivisions of the Ledger commonly employed in a commercial house of some importance have already been described on page 36.

One or more Bought and Sold Ledgers may be kept, according to the requirements of the particular undertaking; and such separate Bought and Sold Ledgers may be devised so as to contain the personal accounts of creditors and debtors according to a given alphabetical or geographical division, or in any other convenient way.

Whatever the number of Ledgers employed, the balances contained in them, plus the balances of the cash in hand, and at the bank, if marshalled in the form of a Trial Balance, should result in an exact "agreement" between the total debit balances and the total credit balances. To this extent and in this manner only can the accuracy of the Ledgers be proved.

Whether under such circumstances the Ledgers employed be few or many, a single mistake in any one of them will prevent the "agreement" of the Trial Balance prepared from them all, but the Ledger-keepers will, in such an eventuality, have no indication of the nature or the whereabouts of the error. They will only know that a difference exists *somewhere* in the books. In such a case

it may become necessary to search through *every* Ledger until the difference is found—a task which is at once disheartening to the Ledger-keepers, because of its magnitude and the uncertainty of any successful result, and wasteful from an employer's point of view, because of the immense amount of labour which is frequently involved.

By means of a system of **Control Accounts**, which it is the purpose of this present chapter to explain, a mistake occurring in any particular Ledger out of a set of Ledgers can be definitely located as existing in that particular Ledger. In these circumstances, therefore, it is necessary to check only such portion of the work as relates to that particular Ledger in which a "difference" has revealed itself in order to discover where this "difference" exists, and the annoying waste of labour involved in checking and re-checking those Ledgers which have been correctly posted is thereby avoided.

Incidentally, a Control Account furnishes useful information as to the total balances appearing in a Ledger (*e. g.* the total amount owing by the Debtors whose accounts are kept in any particular Ledger), and enables the rise and fall in such totals to be periodically compared.

Most of the Ledgers to be found in a modern counting-house, except, perhaps, the "General Ledger," are confined to accounts of a similar nature, *e. g.* the Sold Ledger is usually reserved entirely for the personal accounts of the Debtors of the undertaking, while the Bought Ledger contains nothing except the Creditors' personal accounts, and so on.

Assuming, for a moment, that a given Debtors Ledger contains nothing except Debtors' accounts and debit balances throughout a specified period, it is possible, by the collection and analysis of certain information, to prepare an account or statement showing at any given date the total debit balances standing in that particular Ledger. Such an account is termed a Control Account.

The manner in which a Control Account can be prepared is indicated in the following explanation—

In the case of a Debtors Ledger the transactions recorded will consist of—

1. *Debits* to the Sundry Debtors' accounts for goods sold to them.

2. *Credits* appearing in the Sundry Debtors' accounts for—
   (*a*) Cash received.
   (*b*) Bills received.
   (*c*) Discounts allowed.
   (*d*) Returns Inwards.
   (*e*) Allowances and other credits (if any).

If, to the total of the Debtors' balances appearing in the Ledger at the commencement of the period under review, there be added the total debit entries for the period (1). and if from this total there be deducted the total of the credit entries for the period (2) (*a*), (*b*), (*c*), (*d*), (*e*), the remainder must necessarily represent the total of the debit balances appearing in the Ledger at the close of the period.

An account or statement prepared upon these lines will be in fact a "total" or summarized account for the Debtors Ledger, containing, in condensed form, every transaction which appears in the Debtors Ledger in detail, and showing a balance which equals the total of the balances of the separate Debtors' personal accounts appearing on the Ledger. In other words, it is a "summary" account for the Debtors Ledger.

Every item posted during the given period to every Debtor's account in the Ledger in detail appears also in the Control Account prepared for that Ledger, as a part of one or other of the totals comprising the account. If, therefore, into an ordinary Debtors Ledger posted in the usual way there be interpolated a Control Account prepared for that particular Ledger, and having its sides reversed (*i. e.* a Control Account in which everything appears on the opposite side to which it appears in the individual Debtors' accounts) the result is that every ordinary entry in the Ledger is compensated for by an entry (in total) in the Control Account. The effect of this compensation is that if a Trial Balance of the Ledger be extracted (including, of course, the balance of the Control Account) both sides of the Trial Balance must equal each other; the Ledger has thus become **self-balancing.** In other words, the balances extracted from the ledger form a complete Trial Balance. If the Trial Balance of the Ledger fails to "agree" it indicates that an error has been made somewhere in that particular Ledger. A Control Account for the

purpose of rendering a Creditors Ledger self-balancing can be prepared on precisely identical principles.

The student should be able to understand readily that the insertion, in each of a number of Ledgers, of a Control Account relating to that particular Ledger, is of great convenience in book-keeping. If upon the extraction of a Trial Balance from a Ledger its two sides equal each other, the Ledger may be assumed to have been correctly posted, and the opposite inference naturally arises if disagreement occurs. When Control Accounts are employed it no longer becomes a question of tedious search in order to discover which out of a number of Ledgers contains an error, since the location of the error reveals itself clearly, by the mere fact that the two sides of the Trial Balance of that particular Ledger fail to agree.

An example of a Control Account prepared for a "Sold" Ledger (*i. e.* a Debtors Ledger) is on p. 354. This account is constructed as it would appear in ordinary use. The postings appearing in it on either side consist of totals extracted from the books of original entry, and the starting balance was obtained from the previous Trial Balance of the Debtors Ledger. A detailed explanation of the manner in which the account is prepared and its constituent elements arrived at may more conveniently be postponed until the principles involved have been completely set forth.

If a Control Account be interpolated in a Debtors Ledger in the manner already shown, solely for the purpose of facilitating the balancing of that particular Ledger, the book-keeping, which, without such Control Account, was book-keeping by "double entry," would be more correctly described as having assumed the shape of the "triple entry" variety, if such a term can be permitted. In other words, every transaction would appear once on the debit (or credit) side of the Debtors Ledger, and once on the opposite side in some other Ledger in the ordinary manner, and once again (included with numerous other items in a total) in the Control Account. The obvious advantage of rendering the Debtors Ledger "self-balancing" would have been gained by inserting a Control Account in it; but there would not have been provided, anywhere in the system of book-keeping, compensating contra entries for the postings appearing in the Control Account.

The result of this condition of things would be that the "agreement" of the combined Trial Balance of all the Ledgers would have been destroyed.

Specimen Control Account kept in Sold (Debtors) Ledger—

GENERAL LEDGER CONTROL ACCOUNT

Dr. for the half-year ended June 30, 19— Cr.

19—		£	s.	d.	19—		£	s.	d.
June 30	To Total Cash received from Debtors for the half-year	35,716	0	10	Jan. 1	By Total Debtors' Balances at this date ...	10,932	14	6
,, 30	,, Total Discounts allowed to Debtors for the half-year	194	16	8	June 30	,, Sales for the half-year	65,021	17	9
,, 30	,, Total Goods returned by Debtors during the half-year	362	7	11					
,, 30	,, Total Bills Receivable received from Debtors during the half-year	16,295	3	6					
,, 30	,, Balance carried forward, being Total Debtors' Balances at the close of the half-year	23,386	3	4					
		£ 75,954	12	3			£ 75,954	12	3
					19— July 1	By Balance brought forward............	23,386	3	4

It is eminently desirable that, even in the construction of Control Accounts, the cardinal principle of double entry, viz. that every debit entry requires to be compensated by a credit entry, shall be rigidly adhered to. In order to carry this principle into effect it becomes necessary therefore to open in one Ledger or other, an account duplicating the postings made in the Control Account, but recording them on opposite sides to those upon which they appear in the Control Account. By opening an account of this kind the "agreement" (*i.e.* the appearance of equal balances on both sides) of the combined Trial Balance of all the Ledgers is restored, and the book-keeping becomes, so to speak, a "quadruple entry"

system. The "contra" Control Account relative to the "Control Account" illustrated above is appended as an illustration.

Specimen "Contra" Control Account for a Debtor Ledger, as kept in the "Private" or "General" Ledger—

DEBTORS LEDGER CONTROL ACCOUNT

Dr. Cr.

		£	s.	d.			£	s.	d.
19—					19—				
Jan. 1	To Total Debtors' Balances as at this date	10,932	14	6	June 30	By Total Cash received from Debtors for the half-year	35,716	0	10
June 30	,, Sales for the half-year	65,021	17	9	,, 30	,, Total Discounts allowed to Debtors for the half-year	194	16	8
					,, 30	,, Total Goods returned by Debtors during the half-year	362	7	11
					,, 30	,, Total Bills Receivable received from Debtors during the half-year	16,295	3	6
					,, 30	,, Balance carried down, being Total Debtors' Balances at the close of the half-year	23,386	3	4
		£75,954	12	3			£75,954	12	3
19—									
July 1	To Balance brought forward............	23,386	3	4					

NOTE.—This account should be read in conjunction with the Control Account on p. 354, of which it is, in all respects, the converse.

This second Control Account, which may, perhaps, for the sake of convenience, be termed the "contra" Control Account, is usually inserted in the "Nominal," "General," or "Private" Ledger (whichever term is used to designate the Ledger containing accounts other than those of Debtors and Creditors), and its inclusion therein has other notable uses beyond the useful effect of causing the combined Trial Balance of all the Ledgers to agree.

The Control Account first referred to in connection with the Debtors Ledger (viz. that which is inserted at the end of the Debtors Ledger in the form of a

summary of the Debtors Ledger with the sides reversed) has the effect of causing the Trial Balance of the Debtors Ledger to agree exactly, and it derives this property from the fact that its balance exactly equals the total of the Debtors' balances outstanding at the date of balancing. It shows this balance however on the wrong side of the Ledger for a Debtor's account from the book-keeper's point of view, *i. e.* on the credit side.

The "contra" Control Account in the "Private" or "General" Ledger, however, contains the same total as the Control Account in the Debtors Ledger, but the balance of the former account appears on the opposite side to that upon which the balance of the latter shows itself, viz. the debit side. The balance of the "contra" Control Account in the "Private" or "General" Ledger thus shows in one total the combined balance of the Debtors' accounts appearing in the Debtors Ledger, and it reveals this balance as a debit one. In other words the "contra" Control Account in the "General Ledger" shows at any time the total owing to the firm by the various Debtors whose accounts appear in the particular Ledger to which the Control Account relates and it shows this balance on the correct side for a Debtor's account from a book-keeper's point of view, *i. e.* on the debit side.

If similar "contra" Control Accounts are created in the General Ledger for all the Debtors Ledgers, and also for all the Creditors Ledgers (for, needless to say, Control Accounts can be designed for any type of Ledger upon similar principles to those previously explained as applicable to Debtors Ledgers), and, in addition, for all other Ledgers of whatsoever kind they may be, the result is that the General Ledger contains, in a condensed form, a statement of the whole of the firm's financial position, and permits a Trial Balance to be easily and expeditiously made without the necessity of laboriously extracting the individual balances of all the Debtors' and Creditors' personal accounts.

The General Ledger also becomes self-balancing subject to the inclusion of the Cash Book balance, *i. e.* a Trial Balance of the General Ledger should, if the Cash Balance be brought into account, show debit and credit totals of equal amount.

In actual practice a Control Account, as kept in a Debtors Ledger, is not styled the Control Account

for that Ledger, but is styled the Control Account for the Ledger in which the "contra" Control Account appears. A Control Account kept in a Debtors Ledger, and corresponding to a "contra" Control Account in the General Ledger, will thus usually be called the "General Ledger Control Account"; upon similar principles the relative "contra" Control Account, as kept in the General Ledger, would usually be called the "Debtors Ledger Control Account," or the "Sold Ledger Control Account," as the case might be.

In the foregoing remarks it has been assumed that a Debtors Ledger contains nothing except debit balances; and as an aid to the explanation of the theory of self-balancing Ledgers this assumption is a useful one. In practice, however, the Debtors Ledgers occasionally contain a few small credit balances arising out of the fact that goods have been returned, or allowances made, or from other small transactions of this kind. Where items of this kind exist, the relative Control Account in the Debtors Ledger and the "contra" Control Account in the General Ledger show the *net* balance of the Debtors Ledger, *i.e.* the difference between the total of the Debtors' balances (which will be large) and the total of the few occasional credit balances (which will usually be insignificant). The fact that a "contra" Control Account kept in the General Ledger for any other Ledger shows a "net" balance for the Ledger to which it relates, must be borne in mind when using the Trial Balance of the General Ledger as an approximate Balance Sheet or statement of the financial position; if the few credit balances appearing in a Debtors Ledger, or the few debit balances appearing in a Creditors Ledger (for the latter may arise out of circumstances the converse of those enumerated above), amount to a substantial sum, the Trial Balance of the General Ledger is not a completely satisfactory index to the financial position in all its details.

It has already been mentioned that Control Accounts are prepared for Creditors Ledgers as well as for Debtors Ledgers. A Control Account prepared for use in a Trade Creditors Ledger will usually contain the following items—

First, on the *debit* side of the Control Account in the Creditors Ledger and on the *credit* side of the corre-

sponding "contra" Control Account in the General Ledger—

1. The total Creditors' balances (or the difference between the total Creditors' balances and the few debit balances appearing in the Creditors Ledger) at the commencement of the period covered by the Control Account.
2. The total purchases made from Creditors for the period.
3. Any other transactions appearing to the credit of various persons' accounts in the Creditors Ledger, and any transfers to accounts in other Ledgers.

Secondly, on the *credit* side of the Control Account in the Creditors Ledger, and on the *debit* side of the corresponding "contra" Control Account in the General Ledger—

1. The total of the payments to Creditors for the given period.
2. The total of the discount allowed by Creditors for the given period.
3. The total of the Bills Payable given to Creditors for the given period.
4. The total of the goods returned to Creditors over the given period.
5. Any other transactions appearing to the debit of various persons' accounts in the Creditors Ledger, and any transfers to accounts in other Ledgers.

The balance of such Control Account shows the total due to the Creditors at the close of the period under review, or, if there be any debit balances appearing in the Creditors Ledger, the "net balance" of that Ledger.

In the case of a Control Account for a Debtors Ledger, amounts written off to the Bad Debts Account at the end of the year require to be passed through the Control Account, in common with all other entries affecting the Ledger.

Forms of a Control Account prepared for insertion in a Creditors Ledger and the relative "contra" Control Account which would appear in the General Ledger are appended.

Control Account as kept in a Creditors (Bought) Ledger—

"GENERAL LEDGER" CONTROL ACCOUNT

Dr. **Cr.**

		£	s.	d.			£	s.	d.
19—					19—				
Jan. 1	To Balance.........	84,021	15	9	June 30	By Total Returns	1,199	14	6
June 30	,, Total Purchase	109,326	15	0	,, 30	,, Total Cash......	157,262	15	9
					,, 30	,, Total Discount	1,241	13	2
					,, 30	,, Total Bills Payable	10,050	0	0
					,, 30	,, Balance carried down	23,594	7	4
		£193,318	10	9			£193,348	10	9
19—									
June 30	To Balance brought down	23,594	7	4					

"Contra" Control Account as kept in the General Ledger—

"CREDITORS" (OR "BOUGHT") LEDGER CONTROL ACCOUNT

Dr. **Cr.**

		£	s.	d.			£	s.	d.
19—					19—				
June 30	To Total Returns	1,199	14	6	Jan. 1	By Balance.........	84,021	15	9
,, 30	,, Total Cash......	157,262	15	9	June 30	,, Total Purchases	109,326	15	0
,, 30	,, Total Discount	1,241	13	2					
,, 30	,, Total Bills Payable	10,050	0	0					
,, 30	,, Balance carried down	23,594	7	4					
		£193,348	10	9			£193,348	10	9
					19—				
					June 30	By Balance brought down	23,594	7	4

The general nature and uses of Control Accounts having thus been outlined, there remains still to be explained the method of their preparation.

Both the Control Account in the Personal Ledger and the corresponding "contra" Control Account in the General Ledger must start with the total balances (or, alternatively, the difference between the total debit balances and the total credit balances) appearing on the Ledger at the commencement of a given period. These details are obtained from the Trial Balance of the Ledger extracted at the commencement of the period, and the requisite entry is made direct in the Control Account

and "contra" Control Account, on one side of the one account, and on the opposite side of the other.

Where there is more than one Bought (Creditors) and one Sold (Debtors) Ledger in use, and Control Accounts are kept for each Ledger, it is desirable to keep separate Purchases Journals and Sales Journals for each Bought and Sold Ledger. The total purchases or sales shown by each separate Purchases and Sales Journal are, of course, posted to the "Purchases" and "Sales" Accounts in the ordinary way, and the fact that separate books are kept is useful mainly for the purposes of the Control Accounts. Each Purchases Journal and each Sales Journal contains the purchases and sales relative to its respective Ledger, and these totals are required for insertion in due course in the Control and "contra" Control Accounts.

The total amount of the purchases shown by each separate Purchases Journal is posted to the debit of the Control Account created in the Bought Ledger, and also to the credit of the relative Bought Ledger "contra" Control Account kept in the General Ledger.

The total of the sales as shown by each separate Sales Journal is posted to the credit of the Control Account created in the Sales Ledger, and also to the debit of the relative Sales Ledger "contra" Control Account kept in the General Ledger.

Where no separate Sales and Purchases Journals are kept for the separate Sold and Bought Ledgers, the total of the sales and purchases applicable to each individual Ledger must be obtained by means of analysed Sales and Purchases Journals, similar in principle to those set forth on pages 66 and 71, analysis columns being included for each separate Ledger, and each transaction being extended into its relative Ledger analysis column. The totals of the purchases and sales shown at the end of a period, applicable to any given Ledger, must be entered in the Control and "contra" Control Accounts for that Ledger upon the lines previously laid down.

The foregoing explanation has shown how to compile—

1. In the case of a Bought Ledger Control Account, (*a*) the starting balance, (*b*) the total of the purchases for the period (*i. e.* the whole of the *debit* side of the account with the exception of any special items).

2. In the case of a Sold Ledger Control Account, (*a*) the starting balance, (*b*) the total of the sales for the period (*i. e.* the whole of the *credit* side of the account with the exception of any special items).

The other sides of the Control Accounts are made up of—

1. Cash receipts (Sold Ledger) or payments (Bought Ledger).
2. Discounts allowed (Sold Ledger) or received (Bought Ledger).
3. Bills received (Sold Ledger) or accepted (Bought Ledger).
4. Returns Inwards (Sold Ledger) or Outwards (Bought Ledger).
5. Transfers to other Ledgers and special transactions (both Ledgers).

In order to ascertain the total cash transactions (receipts or payments) applicable to the various Ledgers, Analysis Columns, headed with the name of the appropriate Ledger, are inserted in the Cash Book; in these analysis columns all the debit or credit entries relating to the respective Bought or Sold Ledgers are extended as and when they are entered in the Cash Book. These analysis columns form no part of the ordinary Double Entry system, but merely serve to compile the necessary totals for subsequent inclusion in the Control Accounts at the end of the given period. The totals of these analysis columns must be carried forward from page to page until the end of the desired period, and their use is analogous to the employment of the analysis columns suggested above as an alternative method of obtaining the totals of Ledger postings in connection with the Purchases and Sales.

An elementary form of Cash Book including these analysis columns will be found on page 365. This book has been used in an example which has been appended in order to illustrate the working of Control Accounts generally. The student may be reminded that as many analysis columns will be necessary in the Cash Book as there are Adjustment Accounts to be prepared.

The manner in which the total discounts allowed (or received), the total bills received (or accepted), the total returns inwards (or outwards), and the total of special

transactions needed for insertion in Control Accounts kept for Sales (or Purchases) Ledgers are collected, varies to a great extent with the volume of these transactions passing through the Ledger. Where a three-column type of Cash Book is kept, the Cash Discounts allowed or received will be incorporated in the Control Accounts in company with the cash transactions to which they relate, and no special provision for their ascertainment is therefore necessary. In the case of special discounts, recorded probably in the Journal, the circumstances are different, and these items are usually obtained by careful search, either in the Journal or in any other book of original entry in which they may appear. They must be arranged on analysis paper, according to the respective Bought or Sold Ledger to which they relate, and the total of them must be included on the appropriate sides in the Control and "contra" Control Accounts. In order to obtain the totals of Returns (inwards and outwards), and Bills (received or accepted), and other classes of transactions required to be included in the Control Accounts, analysis columns similar to those inserted in the Cash Book, Purchases Book, and Sales Book are usually inserted in the particular book of original entry through which these items pass. As the transactions are entered in these books of original entry immediately upon their occurrence, they are extended into (*i.e.* inserted in) the appropriate analysis column relating to the Ledger into which they are finally posted. These analysis columns are added up in the ordinary way at the end of the period under review and the totals, representing the totals of those individual classes of transactions applicable to particular Ledgers, are placed in the Control Account as kept in the Ledger in question, and in the corresponding "contra" Control Account as kept in the General Ledger; in the latter they appear on the same side of the account as that upon which the detailed postings in the individual Ledger accounts are shown, and in the former they appear on the opposite side of the account.

Any special or unusual transactions which may appear in the Ledgers, and any transfers as between one Ledger and another, must be brought into the Control Accounts. Transactions of this type are apt to be forgotten in compiling the Control Accounts, and in order to obviate this difficulty a special memorandum

book, or "**Transfer Journal**," ruled to suit the special circumstances of the business, is frequently employed.

An elementary example is annexed in which the system of Self-balancing Ledgers is illustrated. In this example only one Bought and one Sold Ledger have been employed in addition to the General Ledger, but the principles involved in the keeping of Adjustment Accounts for any number of Ledgers are, of course, identical.

The classes of transactions shown as passing through the Bought and Sold Ledgers are confined to Cash, Discounts, Purchases, Sales and Returns (inwards and outwards); in actual practice numerous additional classes or types of transaction frequently arise, and require to be duly included in the Control Accounts. In such cases the collection of the requisite totals is almost invariably effected by the employment of analysis columns in the appropriate book of original entry.

The Trial Balance of Henry Brown on January 1, 19— was as under—

	£	s.	d.	Dr. £	s.	d.	Cr. £	s.	d.
Cash at the Bank				1,009	4	2			
Debtors—									
H. Browning .	272	19	6						
J. Jones . .	184	9	3						
O. Roberts .	432	9	5						
				889	18	2			
Freehold Premises				1,000	0	0			
Creditors—									
L. Leon .	1,724	16	9						
F. Lucien .	392	14	4						
J. Hubert .	25	1	2						
							2,142	12	3
Stock on hand. . . .				1,094	16	8			
Capital Account—H. Brown							1,851	6	9
				£3,993	19	0	£3,993	19	0

His transactions for the month of January were as follows—

19—.			£	s.	d.
Jan.	1.	Drew from the Bank for office cash .	15	0	0
,,	2.	Bought goods of L. Leon (on credit) .	105	10	0
,,	5.	Sold goods to H. Browning (on credit) .	206	15	9
,,	10.	Paid L. Leon on account (by cheque) .	500	0	0
		Being allowed discount . . .	10	0	0

19—			£	s.	d.
Jan.	10.	Paid F. Lucien on account (by cheque)	200	0	0
		Being allowed discount . . .	2	0	0
,,	10.	Paid J. Hubert (by cheque) . .	25	1	2
,,	12.	Bought goods of L. Leon (on credit) .	202	14	9
,,	13.	Sold goods (on credit) to H. Browning .	100	9	6
,,	13.	Sold goods to J. Jones	65	4	3
,,	13.	Sold goods to M. Weaver	32	17	11
,,	14.	Received from H. Browning cheque for . And banked the same.	400	0	0
,,	14.	Allowed H. Browning discount . .	4	0	0
,,	15.	Received from M. Weaver cheque for . And banked the same.	32	17	11
,,	16.	J. Jones returned as unsuitable certain goods sold to him on the 13th inst.—allowed him full invoice price therefor	25	9	10
,,	17.	Bought goods from L. Leon (on credit) .	500	0	0
,,	18.	Returned to L. Leon half the goods bought from him on the 17th inst. as "not up to sample" . .	250	0	0
,,	19.	Paid by cheque salaries and wages to date	35	0	0
,,	19.	Paid L. Leon on account (by cheque) .	200	0	0
		Being allowed discount . . .	4	0	0
,,	22.	Bought goods from F. Lucien (on credit)	102	19	6
,,	23.	Returned to F. Lucien the whole of the goods supplied by him on the 22nd January, goods of a wrong description having been supplied . . .	102	19	6
,,	24.	Paid from office cash sundry charges on the goods returned to F. Lucien as unsuitable, which charges are to be debited to his account . . .	6	9	2
,,	28.	Sold goods to M. Weaver (on credit) .	200	9	6
,,	30.	M. Weaver returned part of the goods sold to him on the 28th inst., invoiced at	10	9	6
,,	30.	And forwarded his cheque for . . Which was duly banked.	100	0	0
,,	30.	Allowed M. Weaver discount . . .	1	0	0
,,	31.	Paid (by cheque) wages and salaries to date	15	4	6
,,	31.	Paid from office cash sundry expenses to date	3	8	4

The foregoing transactions are to be entered in Henry Brown's Ledgers, consisting of a General Ledger, a Bought Ledger and a Sold Ledger. The Bought and Sold Ledgers are to be made self-balancing.

At the close of the period covered by the transactions, separate Trial Balances of each of the Ledgers are to be prepared. Trading and Profit and Loss Accounts and a Balance Sheet are not required, as the exercise is merely to exemplify the working of the system of self-balancing Ledgers and Control Accounts.

Dr. **CASH BOOK** Cr.

Dr.

Date.	Details.	Folio.	Discount. £ s. d.	Cash. £ s. d.	Bank. £ s. d.	Analysis Columns. Sold Ledger No. 1. £ s. d.	Analysis Columns. Sold Ledger No. 2.* £ s. d.
19— Jan. 1	To Balance				1,009 4 2		
,, 1	,, Bank	Contr		15 0 0			
,, 14	,, H. Browning	S.L. 1	4 0 0		400 0 0	404 0 0	
,, 15	,, M. Weaver...	S.L. 4			32 17 11	32 17 11	
,, 30	,, M. Weaver...	S.L. 4	1 0 0		100 0 0	101 0 0	
			5 0 0				
			Debit Discount Account in General Ledger, Fo. 5.				
				£ 15 0 0	1,542 2 1	537 17 11	
						‡	
19— Jan. 31	To Balances † brought down	√		5 2 6	551 16 5		

Cr.

Date.	Details.	Folio	Discount. £ s. d.	Cash. £ s. d.	Bank. £ s. d.	Analysis Columns. Bought Ledger No. 1. £ s. d.	Analysis Columns. Bought Ledger No. 2.* £ s. d.
19— Jan. 1	By Office Cash	Contr			15 0 0		
,, 10	,, L. Leon ...	B.L.1	10 0 0		500 0 0	510 0 0	
,, 10	,, F. Lucien	B.L.2	2 0 0		200 0 0	202 0 0	
,, 10	,, J. Hubert	B.L.2			25 1 2	25 1 2	
,, 19	,, Salaries and Wages ...	G.L.4			35 0 0		
,, 19	,, L. Leon ...	B.L.1	4 0 0		200 0 0	204 0 0	
,, 24	,, F. Lucien...	B.L.2		6 9 2		6 9 2	
,, 31	,, Salaries and Wages to date	G.L.4			15 4 6		
,, 31	,, General Expenses ...	G.L.5		3 8 4			
			16 0 0				
			Credit Discount Account in General Ledger Fo. 5.				
,, 31	,, Balances carried forward	√		5 2 6	551 16 5		
				£ 15 0 0	1,542 2 1	947 10 4	
						§	

* These additional Analysis Columns, though not used in working the present example, are included for the purpose of showing how transactions should be analysed when more than one " Bought " or " Sold " Ledgers are in use.

† This balance, for Trial Balance purposes, ranks as a " General Ledger " balance, the assumption being that the Cash Account is in the " General Ledger."

‡ This total, being the total of the Cash Receipts applicable to the Sold Ledger, is posted (1) To the debit of the General Ledger Control Account in the Sold Ledger, (2) To the credit of the Sold Ledger Control Account in the General Ledger.

§ This total, being the total of the Cash Payments applicable to the Bought Ledger, is posted (1) To the credit of the General Ledger Control Account in the Bought Ledger, (2) To the debit of the Bought Ledger Control Account in the General Ledger.

PURCHASES BOOK

19—			£	s.	d.
Jan. 2	L. Leon	B.L. 1	105	10	0
„ 12	L. Leon	B.L. 1	202	14	9
„ 17	L. Leon	B.L. 1	500	0	0
„ 22	F. Lucien	B.L. 2	102	19	6
	Total *	G.L. 6	£911	4	3

* Posted (1) To the debit of Purchases Account in the General Ledger; (2) To the debit of the General Ledger Control Account in the Bought Ledger; (3) To the credit of the Bought Ledger Control Account in the General Ledger.

SALES BOOK

19—			£	s.	d.
Jan. 5	H. Browning	S.L. 1	206	15	9
„ 13	H. Browning	S.L. 1	100	9	6
„ 13	J. Jones	S.L. 2	65	4	3
„ 13	M. Weaver	S.L. 4	32	17	11
„ 28	M. Weaver	S.L. 4	200	9	6
	Total *	G.L. 7	£605	16	11

* Posted (1) To the credit of the Sales Account in the General Ledger; (2) To the credit of the General Ledger Control Account in the Sold Ledger; (3) To the debit of the Sold Ledger Control Account in the General Ledger.

RETURNS INWARDS BOOK

19—			£	s.	d.
Jan. 16	J. Jones	S.L. 2	25	9	10
„ 28	M. Weaver	S.L. 4	10	9	6
	Total *	G.L. 8	£35	19	4

* Posted (1) To the debit of the Returns Inwards Account in the General Ledger; (2) To the debit of the General Ledger Control Account in the Sold Ledger; (3) To the credit of the Sold Ledger Control Account in the General Ledger.

RETURNS OUTWARDS BOOK

19—			£	s.	d.
Jan. 18	L. Leon	B.L. 1	250	0	0
„ 22	F. Lucien	B.L. 2	102	19	6
	Total *	G.L. 9	£352	19	6

* Posted (1) To the credit of the Returns Outwards Account in the General Ledger; (2) To the credit of the General Ledger Control Account in the Bought Ledger; (3) To the debit of the Bought Ledger Control Account in the General Ledger.

GENERAL LEDGER

1 Freehold Premises 1

Dr. Cr.

19—			£	s.	d.					s.	d.
Jan. 1	To Balance ...		1,000	0	0						
		£	1,000	0	0						

2 Stock Account 2

Dr. | Cr.

			£	s.	d.				£	s.	d.
19— Jan. 1	To Balance ...		1,094	16	8						
		£	1,094	16	8						

3 H. Brown, Capital Account 3

Dr. | Cr.

			£	s.	d.				£	s.	d.
						19— Jan. 1	By Balance...		1,851	6	9
								£	1,851	6	9

4 Salaries and Wages 4

Dr. | Cr.

			£	s.	d.				£	s.	d.
19— Jan. 19	To Bank	C.	35	0	0	19— Jan.31	By Balance carried down	√	50	4	6
„ 31	„ Bank	C.	15	4	6						
		£	50	4	6			£	50	4	6
19— Jan. 31	To Balance ...	√	50	4	6						

5 Discount Account 5

Dr. | Cr.

			£	s.	d.				£	s.	d.
19— Jan. 31	To Discount allowed ...	C.	5	0	0	19— Jan.31	By Discount received	C.	16	0	0
„ 31	„ Balance carried down		11	0	0						
		£	16	0	0			£	16	0	0
						19— Jan.31	By Balance brought down ...	√	11	0	0

6 Purchases Account 6

Dr. | Cr.

			£	s.	d.				£	s.	d.
19— Jan. 31	To Purchases, as per Purchases Book	P.	911	4	3						
		£	911	4	3						

7 Sales Account 7

Dr. | Cr.

			£	s.	d.				£	s.	d.
						19— Jan.31	By Sales, as per Sales Book ...	S.	605	16	11
								£	605	16	11

8 **Returns Inwards** 8

Dr. Cr.

			£	s.	d.				£	s.	d.
19— Jan. 31	To Returns, as per Returns Inwards Book	R.I.	35	19	4						
		£	35	19	4						

9 **Returns Outwards** 9

Dr. Cr.

									£	s.	d.
						19— Jan. 31	By Returns, as per Returns Outwards Book	R.O	352	19	6
								£	352	19	6

10 **General Expenses** 10

Dr. Cr.

			£	s.	d.						
19— Jan. 31	To Cash	C.	3	8	4						
		£	3	8	4						

11 **Bought Ledger Control Account** 11

Dr. Cr.

			£	s.	d.				£	s.	d.
19— Jan 31	To Total Cash and Discount for the month (per Analysis Column of the Cash Book).........	B.L 4	947	10	4	19— Jan. 1	By Total Creditors' Balances at this date ...	B.L 4	2,142	12	3
„ 31	„ Total Returns Outward for the month (per Returns Outwards Book)	B.L 4	352	19	6	„ 31	„ Total Purchases for month (as per Purchases Book)	B.L 4	911	4	3
„ 31	„ Balance carried forward, being the Total Creditors at this date	✓	1,753	6	8						
		£	3,053	16	6			£	3,053	16	6
						19— Jan. 31	By Balance brought down.........	✓	1,753	6	8

12 Sold Ledger Control Account 12

Dr. Cr.

			£	s.	d.				£	s.	d.
19— Jan. 1	To Total Debtors' Balances at this date	S.L. 5	889	18	2	19— Jan. 31	By Cash and Discount for the month (per Cash Book Analysis Column)	S.L. 5	537	17	11
„ 31	„ Sales for the month (per Sales Book)	S.L. 5	605	16	11	„ 31	„ Returns Inwards for the month (per Returns Inwards Book)	S.L. 5	35	19	4
						„ 31	„ Balance carried forward (Total Debtors at this date).........	√	921	17	10
		£	1,495	15	1			£	1,495	15	1
19— Jan. 31	To Balance brought down	√	921	17	10						

BOUGHT LEDGER

1 L. Leon 1

Dr. Cr.

			£	s.	d.				£	s.	d.
19— Jan. 10	To Cash and Discount ...	C.	510	0	0	19— Jan. 1	By Balance...		1,724	16	9
„ 18	„ Returns ...	R.O	250	0	0	„ 2	„ Goods ...	P.	105	10	0
„ 19	„ Cash and Discount ...	C.	204	0	0	„ 12	„ Goods ...	P.	202	14	9
„ 31	„ Balance carried down...	√	1,569	1	6	„ 17	„ Goods ...	P.	500	0	0
		£	2,533	1	6			£	2,533	1	6
						19— Jan. 31	By Balance brought down	√	1,569	1	6

2 F. Lucien 2

Dr. Cr.

			£	s.	d.				£	s.	d.
9— Jan. 10	To Cash and Discount ...	C.	202	0	0	19— Jan. 1	By Balance...		392	14	4
„ 22	„ Returns ...	R.O	102	19	6	„ 22	„ Goods ...	P.	102	19	6
„ 24	„ Cash charges on goods returned ...	C.	6	9	2						
„ 31	„ Balance carried down...	√	184	5	2						
		£	495	13	10			£	495	13	10
						19— Jan. 31	By Balance brought down	√	184	5	2

3 **J. Hubert** 3

Dr.							Cr.					
19— Jan. 10	To Cash	C.		£ 25	s. 1	d. 2	19— Jan. 1	By Balance...		£ 25	s. 1	d. 2
			£	25	1	2			£	25	1	2

4 **General Ledger Control Account** 4

Dr.							Cr.					
19—				£	s.	d.	19—			£	s.	d.
Jan. 1	To Total Creditors at this date	B.L 11		2,142	12	3	Jan. 31	By Total Cash and Discount for the month (per Analysis Column of Cash Book)	G.L 11	947	10	4
„ 31	„ Total Purchases for the month (per Purchases Book)	G.L 11		911	4	3	„ 31	„ Total Returns Outwards for the month (per Returns Outwards Book)	G.L 11	352	19	6
							„ 31	„ Balance carried forward, being the Total Creditors at this date	√	1,753	6	8
			£	3,053	16	6			£	3,053	16	6
19— Jan. 31	To Balance brought down	√		1,753	6	8						

SOLD LEDGER

1 **H. Browning** 1

Dr.							Cr.					
19—				£	s.	d.	19—			£	s.	d.
Jan. 1	To Balance ...			272	19	6	Jan. 16	By Cash and Discount...	C.	404	0	0
„ 5	„ Goods	S.		206	15	9	„ 31	„ Balance carried down	√	176	4	9
„ 13	„ Goods	S.		100	9	6						
			£	580	4	9			£	580	4	9
19— Jan. 31	To Balance brought down	√		176	4	9						

2 S. Jones 2

Dr.											Cr.
19—			£	s.	d.	19—			£	s.	d.
Jan. 1	To Balance ...		184	9	3	Jan. 16	By Returns...	R.I.	25	9	10
,, 13	,, Goods	S.	65	4	3	,, 31	,, Balance carried down	√	224	3	8
		£	249	13	6			£	249	13	6
19— Jan. 31	To Balance brought down	√	224	3	8						

3 O. Roberts 3

Dr.											Cr.
19—			£	s.	d.						
Jan. 1	To Balance ...		432	9	5						
		£	432	9	5						

4 M. Weaver 4

Dr.											Cr.
19—			£	s.	d.	19—			£	s.	d.
Jan. 13	To Goods	S.	32	17	11	Jan. 15	By Cash	C.	32	17	11
,, 28	,, Goods	S.	200	9	6	,, 30	,, Returns ...	R.I.	10	9	6
						,, 30	,, Cash and Discount...	C.	101	0	0
						,, 31	,, Balance carried down	√	89	0	0
		£	233	7	5			£	233	7	5
19— Jan. 31	To Balance brought down	√	89	0	0						

5 General Ledger Control Account 5

Dr.											Cr.
19—			£	s.	d.	19—			£	s.	d.
Jan. 31	To Cash and Discount for month (per Analysis Column of Cash Book).........	G.L. 12	537	17	11	Jan. 1	By Total Debtors' Balances as at this date	G.L 12	889	18	2
,, 31	,, Returns Inwards for month (per Returns Inwards Book)	G.L 12	35	19	4	,, 31	,, Sales for month (per sales Book)	12	605	16	11
31	,, Balance carried forward (Total Debtors at this date)	√	921	17	10						
		£	1,495	15	1			£	1,495	15	1
						19— Jan. 31	By Balance brought forward ...	√	921	17	10

GENERAL LEDGER

Trial Balance, as at January 31, 19—

		Dr.			Cr.		
		£	s.	d.	£	s.	d.
Freehold Premises	1	1,000	0	0			
Stock (January 1, 19—)	2	1,094	16	8			
H. Brown, Capital Account	3				1,851	6	9
Salaries and Wages	4	50	4	6			
Discount	5				11	0	0
Purchases	6	911	4	3			
Sales	7				605	16	11
Returns Inwards	8	35	19	4			
Returns Outwards	9				352	19	6
General Expenses	10	3	8	4			
Bought Ledger Control Account (Sundry Creditors)	11				1,753	6	8
Sold Ledger Control Account (Sundry Debtors)	12	921	17	10			
Cash at Office	C.B.	5	2	6			
Cash at Bank	C.B.	551	16	5			
		£4,574	9	10	£4,574	9	10

BOUGHT LEDGER

Trial Balance, as at January 31, 19—

		Dr.			Cr.		
		£	s.	d.	£	s.	d.
L. Leon	1				1,569	1	6
F. Lucien	2				184	5	2
General Ledger Control Account	4	1,753	6	8			
		£1,753	6	8	£1,753	6	8

SOLD LEDGER

Trial Balance, as at January 31, 19—

		Dr.			Cr.		
		£	s.	d.	£	s.	d.
H. Browning	1	176	4	9			
J. Jones	2	224	3	8			
O Roberts	3	432	9	5			
M. Weaver	4	89	0	0			
General Ledger Control Account	5				921	17	10
		£921	17	10	£921	17	10

In many modern businesses the number of Sold Ledgers employed is so great that it is impracticable to provide sufficient columns in any one book to allow of analysis by the simple method described above. Adjustment

Accounts are practically essential for businesses of such dimensions, and the difficulty is overcome by—

(1) keeping separate day books, subsidiary cash books, etc., for each ledger; or

(2) dividing up the ledgers into suitable groups, for each of which analysis books are kept; or

(3) by recording the items in the first place in the usual way, and then analysing them (this method is obviously cumbersome unless machines are used for the analysis; or

(4) by machine accounting.

The last method is being adopted rapidly by large concerns. Calculating machines can now be obtained with a typewriting attachment, and innumerable columns. With such machines it is possible to make out invoices, delivery notes, orders to the despatch department, etc., at one operation, and since the additional documents are obtained by the use of interleaved carbon paper, each must be identical. Similarly, the original entry in the day book is at the same operation made on the ledger sheet, and the machine automatically makes out the statement, accumulates totals and strikes the balance. The accumulated totals can be recorded on a " proof " sheet, which, when the totals of cash items (also obtained by machine posting) and other relevant items (similarly obtained) are added forms the substitute for the Control Account.

It is not possible, nor is it desirable, to enter here into detailed descriptions of these machines or into their respective merits and demerits; readers can readily obtain full particulars from the makers, as all kinds of machine are extensively advertised. The author's aim in this treatise is to explain the principles of proper account keeping; machines are merely a *means* of applying these principles.

Tabular or Columnar Book-keeping

What is commonly known as the " Tabular " or " Columnar " system of book-keeping is not a distinctive system of accounting, indeed it cannot be designated a " system " in the same sense in which the Double Entry method is so described. The term, in this connection, merely expresses the fact that, in certain cases, books which have been ruled with many analysis columns, in

PURCHASES AND EXPENSES JOURNAL

Date.	Invoice Number.	Personal Account. Name.	Personal Account. Particulars.	Cr. Folio.	Total. £	s.	d.	Goods Purchased. Plate Department. £	s.	d.	Goods Purchased. Cutlery Department. £	s.	d.	Printing and Stationery. £	s.	d.	Rent, Rates and Taxes. £	s.	d.	General Expenses. £	s.	d.	Insurance. £	s.	d.
19— July 1	397	Brown, Jones & Co.	Goods, per invoice	85	192	16	9	164	12	3	28	4	6												
,, 1	398	Borough of West Ham	Rates for half-year ending Dec. 31, 19—	372	241	12	9										241	12	9						
,, 1	399	Morrison & Co.	Printing, per statement rendered ...	194	32	1	6							32	1	6									
,, 1	400	Verity & Co.	Notepaper and office sundries	195	14	2	9							12	1	6				2	1	3			
,, 1	401	Michelham, Moses & Co.	Goods, per invoice	88	394	11	2	186	11	2	208	0	0												
,, 1	402	Aaronson & Haviland	Goods, per invoice	89	10	4	9				10	4	9												
,, 1	403	The Northern Insurance Co., Ltd.	Burglary Insurance	195	2	6	9																2	6	9
			Carried forward		£887	16	5	£351	3	5*	£246	9	3*	£44	3	0*	£241	12	9*	£2	1	3*	£2	6	9*

* These totals are here shown as "carried forward" to the next page of the Journal. If, however, there were no further purchases made or expenses incurred during the financial period the totals would be posted respectively to the *debit* of "Purchases" "Printing and Stationery," "Rent, Rates and Taxes" "General Expenses" and "Insurance" accounts in the "Nominal," "Private" or "General" Ledger.

order to adapt them to the special requirements of a particular business, have been substituted for the ordinary forms of Cash Books, Journals and Ledgers commonly employed. The underlying principles of "columnar" book-keeping are those of the Double Entry system, although, in order to minimise labour and concentrate items of a like kind, its customary forms are more or less abbreviated and condensed, so that a continuous analysis of the transactions recorded may be made.

Where columnar rulings are employed in Double Entry book-keeping it does not necessarily follow that all the books in ordinary use are uniformly "columnar"; the insertion of additional columns is purely a matter of convenience and adaptability. An ordinary Cash Book may, in a given case, be used in conjunction with a "columnar" Ledger, a columnar Purchases Journal may work in unison with an ordinary form of Ledger, and so on.

Columnar Journals.—These are Journals or Day Books ruled with a greater or lesser number of additional columns to meet the needs of varying circumstances.

Such additional columns may be inserted (*a*) in order to obviate the separate posting to the Ledger of each individual item, and to permit posting in totals, (*b*) to analyse transactions as between departments in order to facilitate the preparation of departmental Trading and Profit and Loss Accounts, (*c*) for the purpose of preparing Adjustment Accounts for individual Ledgers, or (*d*) to provide any additional information which may be desired.

The forms of Purchases Book, Sales Book, Returns Inwards and Outwards Books previously given on pages 66, 71 and 99 are of a columnar character, and, subject to any additional modifications, are such as can be used in order to fulfil objects (*a*), (*b*) and (*c*) mentioned above. The forms of Bills Payable and Bills Receivable Books illustrated on page 90 are also of a columnar nature, their object being to permit the posting of Bills Payable and Bills Receivable to the Ledger in *totals*, as well as to furnish all necessary information regarding the bills.

On p. 374 is illustrated a further form of columnar Journal, which provides a classified record not only of purchases (as is the case with an ordinary Purchases Book) but also of expenses incurred. In using this Journal the postings to the credit of the personal accounts

are made according to the items inserted against each name in the " total column," and at the end of any given financial period, the various purchases and expenses columns are added up, the totals being then posted to the debit of the respective purchases or expense accounts in the Ledger.

Columnar Cash Books.—The form of Cash Book illustrated on page 365 in connection with the preparation of Control Accounts furnishes an example of a columnar Cash Book. The analysis columns there inserted in order to collect all the items relating to the Sold and Bought Ledgers could be equally well used as columns for the purpose of collecting items of expenditure or income in a classified form. If analysis columns are thus used in a Cash Book in order to collect expenses into totals for posting purposes, each item of expense is extended into its appropriate column in addition to being entered in the ordinary way in the " Cash " or " Bank " columns proper, and, at the close of any given period, the totals of these "expenses" columns are posted to the debit of the various expenditure accounts, thus obviating all tedious posting of details.

Analysis columns can be used on the debit side of a Cash Book for the purpose of collecting income into suitable totals for posting, in the same manner in which expenses are treated.

An example of a columnar Cash Book is on p. 377, in which analysis columns are included for collecting various items of income and expenditure under appropriate headings for subsequent Ledger posting. In practice a larger number of analysis columns would, in all probability, be inserted on the credit side of the book in order to make the classification of the expenses more exhaustive. The form which is here shown is that designed for a dispensary supported by subscriptions and donations. It will suitably illustrate the main principles involved.

Columnar Ledgers are usually met with, in practice, in connection with personal accounts; they are not generally suitable for the record of nominal accounts, although columnar rulings are employed in the case of some nominal accounts. Examples will be found in the Purchases and Sales Accounts given on pages 66 and 71, which are columnar in form.

Where an undertaking is compelled, by the nature of its operations, to keep a large number of personal accounts

Dr. **COLUMNAR CASH BOOK** (Form for use in a Dispensary) Cr.

Donations £	s.	d.	Subscriptions £	s.	d.	Date	Details	Folio or Voucher No.	Cash £	s.	d.	Bank £	s.	d.
						19— Jan. 1	To Balance brought forward.........		5	9	2	102	5	9
			1	1	0	,, 1	,, J. Brown		1	1	0			
			2	2	0	,, 1	,, H. Jones ...					2	2	0
			1	1	0	,, 1	,, M. Morris					1	1	0
0	10	0				,, 2	,, O. Roberts		0	10	0			
0	10	0	1	1	0	,, 2	,, R. James...					1	11	0
			5	5	0	,, 2	,, S. Smith ...					5	5	0
2	2	0				,, 2	,, B. Brown...					2	2	0
3	2	0	10	10	0		Carried forward.........		7	0	2	114	6	9

Date	Details	Folio or Voucher No.	Cash £	s.	d.	Bank £	s.	d.	Expenses. Drugs £	s.	d.	Salaries and Wages £	s.	d.	Gas, Light, Water, Rates and Taxes £	s.	d.	General Expenses £	s.	d.
19— Jan 1	By Brown, Jones & Co.					6	8	9	6	8	9									
,, 1	,, J. O. Harris, M.D. ...					12	10	0				12	10	0						
,, 1	,, V. Michael...					7	10	0				7	10	0						
,, 2	,, Midborough District Council					5	9	2							5	9	2			
,, 2	,, Midborough Gas Co.					1	19	6							1	19	6			
,, 2	,, Mrs. Jones (housekeeper)		3	4	1													3	4	1
,, 2	,, Mrs. Jones (wages)		1	0	0							1	0	0						
	Carried forward		4	4	1	33	17	5	6	8	9	21	0	0	7	8	8	3	4	1

NOTE.—In the above example the totals are shown as having been "carried forward"; if there were no further transactions for the period needing record in the books the totals of the "Donations" and "Subscriptions" analysis columns would be posted to the credit of accounts opened under these headings in the "Nominal" Ledger; the total of the "Expenses" columns would also be posted to the debit of their appropriate accounts in the "Nominal" Ledger.

(usually for debtors) of identical form, and containing like items, it is possible to employ a Ledger suitably ruled in columnar form to accord with the items needing record, and thereby to economise both time and labour. All that is necessary in order that a Ledger shall comply with the principles of Double Entry book-keeping is—

1. That the Debit items shall be grouped by themselves apart from the Credit items.
2. That the total of either class of item shall be visible, and consequently that the " balance " of the account shall be capable of being readily ascertained.

Provided that these requirements are complied with, strict adherence to the ordinary form of Ledger ruling (as given on page 3) is a matter of option and convenience.

In the ordinary form of Ledger account, debit items are ranged underneath one another on one side of the page, and credit items are similarly ranged on the other side of the page. In columnar Ledgers the debit items are frequently ranged side by side on the same line across one part of the page, the credit items being similarly ranged side by side across the other side. It is as easy to add together items ranged horizontally across a page as to add the same items ranged vertically. The making of additions horizontally is termed " cross casting," as opposed to the term " casting," which is used to designate additions made perpendicularly in the ordinary way.

When Ledger accounts can be kept on a single line across a page it will be obvious that one page can accommodate a number of accounts, and if all the Ledger accounts of a given class consist of the same number of similar items, columns can be ruled perpendicularly to separate the debit from the credit items. Many undertakings supplying commodities of special types to numerous customers find that their Debtors Ledger accounts fall within this description; for instance, in the case of a Water Company, the only debits in each consumer's account for a given period will be (1) for water supplied, (2) for any arrears brought forward, and (3) for any extra charges, such as those for excess supply or garden-hose supply; similarly, the credits will be for (1) cash received, (2) allowances made, (3) any arrears carried forward. Here a columnar Ledger can be

employed with advantage, the account for each consumer occupying one line across the page, and the debit items being separated from the credit items. If the width of the book is sufficient the single line containing each personal account can be made to serve for two or more periods, if so desired.

A form of a Water Company's "Consumers Ledger" is given on page 380. Column 1 contains the debit balance brought forward from the previous period; columns 3 and 5, with their appropriate folio columns 2 and 4, contain credit postings for cash received on account of these arrears, or for allowances made in respect of them. If arrears are duly collected the total of the items in columns 3 and 5 should equal the balance brought forward in column 1; and, if any items remain uncollected when the next charge for water falls due, the amount in column 1 must be regarded, together with the items in columns 9 and 10 (see below), as falling due in the period under review. Columns 9 and 10 contain the amounts due for supply during the period to which the account specially relates; their total is extended into column 11, and this column (coupled with any unpaid arrears in column 1) shows the total amount due from the consumer.

All cash received from the consumer is inserted in column 13, and is posted from the Cash Book; any allowances made are inserted in column 15, the total of these two columns is inserted in column 16, and, by the deduction of this latter total from the total shown as due in column 11 (with any long outstanding arrears in column 1), the balance due from each consumer at the end of the period is obtained for insertion in column 17. This balance forms the starting balance for the next period.

As regards the contra entries for the items inserted in the columns, the cash received is invariably posted from the Cash Book, and the allowances are posted from the Allowances Journal, the "Allowances" Ledger account being debited in the ordinary way.

The totals to be credited to "Water supplied" and "Excess Supply and Extras" accounts in the Ledger can be obtained by adding up columns 9 and 10 perpendicularly.

The whole of the columns should be cast at the end of the page, and all totals should agree, *i.e.* the combined totals of columns 1, 9 and 10 should equal the

WATER COMPANY'S CONSUMERS LEDGER

1			2	3			4	5			6	7	8	9			10			11			12	13			14	15			16			17			18
Arrears) Balance brought forward Dec. 31, 19—.			Folio.	Cash received on account of arrears.			Folio.	Allowances made on account of arrears.			Reference Number.	Street and Number.	Rateable Value.	Half-year's Water Rate, due Jan. 1, 19—.			Excess Supply and Extras.			Total due.			Folio.	Cash received.			Folio.	Allowances made.			Total Cash and Allowances.			Balance brought forward June 30, 19—.			The whole set of columns (except starting balance) can be repeated here for the second half of 19—
£	s.	d.		£	s.	d.		£	s.	d.			£	£	s.	d.	£	s.	d.	£	s.	d.		£	s.	d.		£	s.	d.	£	s.	d.	£	s.	d.	
3	9	4	32	3	9	4					109	Laburnum Grove, 1	36	1	16	0	0	3	0	1	19	0	139	1	19	0					1	19	0				
											110	do. 2	37	1	17	0				1	17	0	142	1	16	0	32	0	1	0	1	17	0				
1	16	0	37	1	16	0					111	do. 3	36	1	16	0	0	5	0	2	1	0	142	2	1	0					2	1	0				
1	16	0	36	0	18	0	242	0	18	0	112	do. 4	36	1	16	0				1	16	0	142	0	18	0	33	0	18	0	1	16	0				
											113	do. 5	36	1	16	0	0	6		2	2	0												2	2	0	
											114	do. 6	38	1	18	0				1	18	0	142	1	18	0					1	18	0				
											115	do. 7	40	2	0	0				2	0	0												2	0	0	

(Here follow further Accounts, each occupying one line.)

combined totals of columns 3, 5, 13, 15 and 17; or, alternatively, the combined totals of columns 1 and 11 should equal the combined totals of columns 3, 5, 16 and 17.

Columnar Ledgers of this type can be used with much advantage for undertakings supplying a single homogeneous commodity in bulk or by measure, *e.g.* for Gas or Electricity. Ledgers of this form are also used by Dairies (for milk, butter and eggs supplied), by Bakers (for bread, flour, etc. supplied), and by other tradesmen dealing in similar commodities.

The other type of columnar Ledger commonly met with proceeds upon similar lines, with the exception that the accounts contained therein are ranged vertically instead of horizontally; the detail headings being placed down the page on the extreme left-hand side instead of across it. Addition of the items in each personal account is made vertically instead of horizontally, and the credit items are placed in a section by themselves below the debit items.

This form of Ledger is commonly used by Hotels to record the accounts of their guests, the various items being too numerous to be conveniently ranged *across* the page of any book of ordinary size.

A form of an Hotel "Visitors Ledger" is on page 382.

In this form the daily debits to each visitor's account appear in the upper half of the ruling, the cash received and other items finding their due place (together with the balance carried forward to the next day) in the lower part of the form. All cash received is posted from the Cash Book, any allowances that may be made are posted from the Allowances Book, and any transfers from this "Visitors Ledger" to an ordinary Customers Ledger pass through the Journal.

This form of book is restricted in use to about thirty "rooms," owing to the available space limits as regards width; in hotels containing more than this number of rooms additional Ledgers must be employed.

The advisability of adopting Tabular Ledgers depends very much upon the requirements and nature of the particular business; much depends also upon the limits of space in respect of the width or depth of the Ledger pages; it will be clear, however, that the system cannot be usefully applied unless the accounts contain items of a uniform kind.

(Hotel Visitors Ledger) VISITORS LEDGER Thursday, July 15, 19—

	Room No. 1 H. Hope			Room No. 2 S. Boorman			Room No. 3 B. Quinton			Room No. 4 A. Barrow			Room No. 5			Room No. 6			Room No. 7			Room No. 8			Room No. 9			Daily Total.			Folio.	
Debits.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.		
Balance brought forward	1	0	0	1	10	0																						2	10	0		Brought forward
Apartments	0	6	0	0	7	0	0	6	0	0	5	0																1	4	0		Apartments
Breakfast	0	1	6	0	2	0	0	2	0	0	1	6																0	7	0		Breakfast
Lunch				0	3	0																						0	3	0		Lunch
Tea and Coffee																																Tea and Coffee
Dinners	0	4	0	0	4	0																						0	8	0		Dinners
Suppers										0	2	6																0	2	6		Suppers
Wine	0	2	0	0	6	0																						0	8	0		Wines
Spirits and Liqueurs																																Spirits and Liqueurs
Ale, Stout, etc.										0	0	6																0	0	6		Ale, Stout, etc.
Minerals				0	1	0	0	1	0																			0	2	0		Minerals
Cigars	0	0	6	0	1	0																						0	1	6		Cigars
Newspapers																																Newspapers
Postage																																Postage
Laundry																																Laundry
Carriage																																Carriage
Attendance																																Attendance
Baths	0	1	0	0	1	0																						0	2	0		Baths
Fires				0	1	6																						0	1	6		Fires
Sundries																																Sundries
Total £	1	15	0	2	16	6	0	9	0	0	9	6																5	10	0		Total
Credits.																																
Cash received		15	0	2	16	6																						4	11	6		Cash received
Allowances																																Allowances
Ledger account																																Ledger account
Balance carried forward							0	9	0	0	9	6																0	18	6		Balance carried forward
Total £	1	15	0	2	16	6	0	9	0	0	9	6																5	10	0		Total

Note.—This Ledger is written up daily, a fresh page being used for each day, and the balances being carried forward each night. The "Daily Total" column, at the extreme right, forms a posting medium, from which the necessary postings to the credit of the respective nominal accounts can be effected. The horizontal lines ruled across the "Debits" section are not for the purpose of making intermediate additions; they are merely to act as guides to the eye in posting.

EXERCISES

17A.

1. Explain briefly the principles and practice of what are known as "Self-Balancing Ledgers."

2. Rule a form of Cash Book suitable for a business wherein a General Ledger, two Bought Ledgers and two Sold Ledgers are in operation, all these Ledgers being self-balancing; and enter therein six specimen transactions.

3. Rule a form of Sales Book to be used in the business mentioned in question 2, entering therein four specimen transactions.

17B.

From the following particulars of a trader's transactions prepare—

1. The "Bought Ledger";
2. The "General Ledger Control Account" kept in the "Bought Ledger"; and
3. The "Bought Ledger Control Account" kept in the "General" Ledger.

Showing he balances on these accounts at the 31st January, 19—.

The Bought (*i.e.* Creditors') Ledger balances as at January 1, 19—, were as follows—

		£	s.	d.
Credit balance—	A. Brown	100	19	6
,, ,,	B. Chaff	200	17	6
,, ,,	C. Dark	562	19	8
,, ,,	D. Ewart	634	12	6

The transactions needing record were as under—

19—.			£	s.	d.
Jan.	2.	Bought of A. Brown goods on credit	325	9	4
,,	3.	Paid A. Brown by cheque	300	0	0
		Being allowed discount	3	0	0
,,	4.	Bought of B. Chaff goods on credit	200	17	6
,,	5.	Returned to B. Chaff part of the goods bought from him on the 4th inst. invoiced at	15	2	9
		Being allowed by him full invoice value.			
,,	6.	Paid B. Chaff on account	350	0	0
		Being allowed discount	3	10	0
,,	8.	Brought from C. Dark goods on credit	400	0	0
,,	9.	Accepted C. Dark's draft at three months' date for	800	0	0
,,	9.	Paid him by cheque	100	0	0
,,	11.	Accepted D. Ewart's draft at six months' date for	300	0	0
,,	16.	Bought from D. Ewart goods upon credit	100	0	0
,,	17.	Returned to D. Ewart the goods bought on the 16th inst., being allowed full invoice price therefor	100	0	0
,,	21.	Paid D. Ewart by cheque	200	0	0

19—			£	s.	d.
Jan.	22.	Paid A. Brown by cheque	100	0	0
„	28.	Bought from A. Brown goods upon credit	321	19	10
„	31.	Accepted A. Brown's draft at three months' date for	200	0	0
„	31.	Bought from D. Ewart goods on credit .	162	3	9

17c.

From the following particulars of a trader's transactions, in whose business only one "Sold" Ledger is kept, prepare—

1. The relative "Sold" Ledger Control Account kept in his General Ledger.
2. The relative General Ledger Control Account kept in his "Sold" Ledger bringing down the balance on each account as at December 31, 19—.

	£	s.	d.
Total customers' debit balances, October 1, 19—	24.621	9	8
Totals of the following transactions for the period, October 1—December 31, 19—			
(*a*) Cash received from customers . .	30,292	14	7
(*b*) Discounts allowed them . . .	1,216	4	11
(*c*) Acceptances received from customers	5,365	10	0
(*d*) Goods sold to customers on credit .	46,219	4	2
(*e*) Goods returned by customers . .	324	1	9
(*f*) Customers' acceptances returned by the Bank dishonoured . . .	300	0	0
(*g*) Bad debts written off, December 31, 19—	1,214	9	6
(*h*) Cash disbursed for carriage paid in advance on account of sundry customers (in cases where the latter defray carriage)	10	2	9
(*i*) Packing and crates debited to sundry customers (where the latter bear these charges)	15	2	6

17d.

1. Explain the nature and uses of a tabular or columnar Ledger; illustrate your answer by ruling a form of tabular Ledger either (1) for an Hotel, or (2) for a Water Company, inserting therein twelve specimen transactions.

2. Explain the purposes for which columnar Cash Books and Journals are employed.

3. For what types of businesses are tabular Ledgers (1) suitable and (2) unsuitable?

Answers—

17b. Balance of the two Control Accounts, January 31, 19—, **£538 6s. 10d.**

17c. Balance of both accounts, December 31, 19—, **£32,752 18s. 4d.**

CHAPTER XVIII

DEPARTMENTAL ACCOUNTS

In cases where a commercial undertaking deals in different kinds of commodities, or performs services of varying descriptions for the community, the modern practice is to subdivide the business into appropriate departments, *e.g.* a clothier's business may be divided into "Ready-to-Wear Clothing," "Hosiery," "Underwear," "Hat" and "Gloves" Departments.

This subdivision for administrative purposes is usually accompanied by a complementary subdivision of the book-keeping in order that the trading results of each department may be separately ascertained.

Where several departments exist in a business, it will usually be found that one set of Bought Ledgers (Creditors Ledgers) and one set of Sold Ledgers (Debtors Ledgers) are kept to contain all the creditors' and debtors' personal accounts. Each department will very possibly purchase goods from the same creditors; and it is even more usual to find that each department supplies the same customers with goods either simultaneously or upon different dates. It is highly desirable that the whole of the firm's transactions with any particular individual or firm shall be contained in one personal Ledger account, in order that the financial position at any date as regards that particular individual or firm may be readily ascertained, and for this reason the keeping of separate Bought and Sold Ledgers for individual departments is usually inadvisable.

In order, however, to ascertain the trading results achieved by each department separately some suitable subdivision, or analysis of the accounts from which the Trading Account is built up, is necessary. The Stock on hand, Purchases and Sales, in the case of a trading

business, and, in addition, the manufacturing wages and the other essential expenses of production in a manufacturing business, all require to be analysed as between the various departments to which they relate.

Forms of analysed Purchases, Sales, and Returns Books have already been given (see pages 66, 71, 99), wherein the principle of classification, according to departments, is effected.

In modern practice loose sheets are sometimes employed for analysis purposes, protected by a binder for safe storage.

As regards the direct expenses of production in a manufacturing business, the principle item, that of "wages," must be analysed from the wages sheets, in order that the amount applicable to each department may be ascertained. The Wages Account in the Ledger must be ruled with appropriate analysis columns for each department, just as in the case of the Purchases and Sales Accounts already described.

The other direct expenses of production must be analysed in a similar manner; the various expense accounts in the books must be ruled with analysis columns to contain the expenses chargeable to the Trading Account of each Department, or separate Ledger accounts can be opened for the departments if the subdivisions are not too numerous.

If all the accounts which contribute to the construction of the Trading Account are thus analysed, it becomes possible to prepare a separate Trading Account for each department, and consequently to show the gross profit made by each branch of the business.

A Trial Balance is annexed from which a Trading Account has been compiled, showing the gross profits made by each of the two departments ("Plate" and "Cutlery") of which the business consists.

It will be seen from this illustration that the Plate Department has made a gross profit of £6,503 10*s.* 1*d.*, while the Cutlery Department has made a gross profit of £11,225 15*s.* 8*d.*

In some businesses the ascertainment of the gross profit on trading made by each department is a sufficient index to the manner in which that department is being conducted, and the process of analysing the Profit and Loss Account upon similar departmental lines is not

resorted to. In the majority of undertakings, however, the accurate apportionment of the net profits as between the various departments of the business is deemed imperative, in order to achieve intelligent management. In the absence of accurate departmental Profit and Loss accounts, it is quite possible that one, or more, departments may be run at a loss unknown to the proprietor of the business. In cases where it is desired to analyse the Profit and Loss Account in departmental form, it becomes necessary to apportion the various fixed and other working expenses of the business as between its constituent departments.

THE EVERWEAR PLATE & CUTLERY CO., LTD., BIRMINGHAM

TRIAL BALANCE, as on June 30, 19—

	Dr.			Cr.		
	£	*s.*	*d.*	£	*s.*	*d.*
Share Capital, 25,000 £1 shares				25,000	0	0
Freehold Land and Buildings	6,202	16	5			
Plant and Machinery (*less* Depreciation)	4,040	10	0			
Stock, July 1, prior, Plate Dept.	1,024	9	6			
" " Cutlery Dept.	2,039	15	7			
Sundry Debtors	22,000	10	2			
Purchases, raw materials, etc., Plate Dept.	17,292	10	9			
" " " Cutlery Dept.	20,026	14	3			
Sales, Plate Dept.				35,010	10	6
" Cutlery Dept.				52,515	15	9
Returns Outward, Plate Dept.				321	4	3
" " Cutlery Dept.				109	2	6
Manufacturing Wages, Plate Dept.	13,209	3	8			
" " Cutlery Dept.	18,329	11	4			
Rent, Rates, Taxes and other Office Expenses	4,065	17	3			
Manufacturing Charges (including depreciation of Plant and Machinery), Plate Dept.	2,094	16	3			
" " " Cutlery Dept.	3,028	14	2			
Discount Account	594	13	6			
Bank Charges and Commissions	129	14	8			
Advertising and Catalogues	132	14	2			
Travelling Expenses and Sundries	209	10	5			
Sundry Creditors				3,216	4	9
First Mortgage, 4½ per cent. Debentures				5,000	0	0
Salaries and Travellers' Commission	4,269	15	8			
Cash at Bank	2,471	0	0			
Cash in hand	10	0	0			
£	121,172	17	9	121,172	17	9

NOTE.—The value of the Stock on hand as on June 30, 19—, was taken at—
Plate Department .... £4,792 15*s.* 6*d.*
Cutlery Department .... £2,025 12*s.* 9*d.*

It is frequently a matter of some difficulty to state, with any degree of finality, the exact proportions of the business expenditure which relate to any given

THE EVERWEAR PLATE & CUTLERY CO., LTD.

TRADING ACCOUNT for the Year ended June 30, 19—

Dr.

Date		Plate Department. £	s.	d.	Cutlery Department. £	s.	d.	Total. £	s.	d.
19— July 1	To Stock on hand	1,024	9	6	2,039	15	7	3,064	5	1
19— June 30	,, Purchases (*less* Returns)	16,971	6	6	19,917	11	9	36,888	18	3
,, 30	,, Manufacturing Wages ...	13,209	3	8	18,329	11	4	31,538	15	0
,, 30	,, Manufacturing Charges (including depreciation of Plant and Machinery)	2,094	16	3	3,028	14	2	5 123	10	5
,, 30	,, Gross Profit carried to the Profit and Loss Account	6,503	10	1	11,225	15	8	17,729	5	9
	£	39,803	6	0	54,541	8	6	94,344	14	6

Cr.

Date		Plate Department. £	s.	d.	Cutlery Department. £	s.	d.	Total. £	s.	d.
19— June 30	By Sales	35,010	10	6	52,515	15	9	87,526	6	3
,, 30	,, Stock on hand	4,792	15	6	2,025	12	9	6,818	8	3
	£	39,803	6	0	54,541	8	6	94,344	14	6

PROFIT AND LOSS ACCOUNT for the Year ended June 30, 19—

Dr.

Date		Plate Department. £	s.	d.	Cutlery Department. £	s.	d.	Total. £	s.	d.
19— June 30	To Rent, Rates, Taxes, and other Office Expenses ...	1,626	6	11	2,439	10	4	4,065	17	3
,, 30	,, Salaries and Travellers' Commission	1,707	18	3	2,561	17	5	4,269	15	8
,, 30	,, Discount	237	17	5	356	16	1	594	13	6
,, 30	,, Bank Charges and Commission........................	51	17	11	77	16	9	129	14	8
,, 30	,, Advertising and Catalogues	53	1	8	79	12	6	132	14	2
,, 30	,, Travelling Expenses and Sundries	83	16	2	125	14	3	209	10	5
,, 30	,, Net Profit carried down ...	2,742	11	9	5,584	8	4	8,327	0	1
	£	6,503	10	1	11,225	15	8	17,729	5	9

Cr.

Date		Plate Department. £	s.	d.	Cutlery Department. £	s.	d.	Total. £	s.	d.
19— June 30	By Gross Profit brought from Trading Account	6,503	10	1	11,225	15	8	17,729	5	9
	£	6,503	10	1	11,225	15	8	17,729	5	9
19— June 30	By Balance brought down	2,742	11	9	5,584	8	4	8,327	0	1

department of the undertaking, and some method of analysing the various charges, other than their laborious dissection in detail, has usually to be evolved.

The various expenses charged in the Profit and Loss Account may be taken to represent the cost of effecting, and obtaining payment for, the sales previously set forth in the Trading or Manufacturing Account; and, in the majority of cases, it is not an unwarrantable assumption to conclude that the cost of selling the products of all departments bears an equal ratio to the amount of the sales effected by one department. This assumption may not be correct in some cases *e.g.* where one department is so well established in public favour that it needs no further advertisement, while another department, yet in its early stages, is compelled to spend large sums in this direction, but in such cases adjustment of any special items of expense must be made prior to the subdivision of the expenditure generally.

Upon the assumption stated above, the expenses of selling and securing payment for goods, set out in the Profit and Loss Account, are frequently divided as between the departments of the business according to the ratio which the totals of the sales effected by each department bear to the total sales of the whole business; *e.g.* if the sales effected by Department " A " be £20,000 and those by Department " B " be £40,000, the whole of the expenses set forth in the Profit and Loss Account would be divided and charged, as to $33\frac{1}{3}$ per cent. of them, to the separate Profit and Loss Account for Department " A," and as to $66\frac{2}{3}$ per cent. of them to the similar account for Department " B."

This subdivision of expenses is sometimes applied to the whole of the expenses of an undertaking, and will, in many cases, give a result which may be regarded as being as equitable an apportionment as can be conveniently arrived at. In cases where expenses are directly incurred on behalf of any particular department (*e.g.* the advertising expenditure previously mentioned), such expenses should of course be duly charged to the department for which they were incurred; the spreading of the expenses over the departments upon the basis of the totals of the sales can then be applied to such other forms of expense as do not readily lend themselves to individual dissection.

Expenses which relate to the business as a whole, such as Rent, Rates, Taxes, Lighting, Heating, etc., should be apportioned upon some equitable basis, such as the square feet occupied by the department, the average value of the departmental stocks, or similar equitable basis.

A Departmental Profit and Loss Account is annexed, prepared from the Trial Balance previously given as an illustration in this chapter, in which the expenses have been apportioned upon the basis of the total sales.

The organisation of Departmental Accounts is a matter wherein differences of practice will be frequently found, due in most cases to the different objects for which the results are required by the proprietors of the business, or to the technical peculiarities of any given business. The foregoing remarks, however, will serve the student as a guide to the main principles involved.

In some cases separate Departmental Ledgers are kept in order to record the whole of the transactions of each Department, including its Debtors and Creditors, the whole of the book-keeping of each department working up to a Control Account in the Departmental Ledger, and in the General Ledger, each department being conducted as a business apart. This form of organisation is, however, costly and not very common, and in many cases would be so laborious that its adoption would be impracticable.

Branch Accounts

The record of the financial relationships existing between the Head Office of an undertaking and its Branch business or businesses, and *vice versa*, is a matter upon which considerable diversity of practice exists, the methods employed naturally varying according to the circumstances of each case. A Branch may be defined as a department conducted at a distance. In some cases the Branch acts solely as a depot for the receipt of orders which are executed direct from the Head Office, or it may act merely as a collecting agency, or occupy in other respects a subordinate position. In any of these cases the Branch can hardly be said to trade independently, and its transactions are usually embodied

periodically in the Head Office books, small sums of petty cash being entrusted to the Branch manager for the purpose of making the necessary disbursements. The only books kept at the Branch are a Petty Cash Book and possibly one or more statistical registers.

In a more advanced stage of the Branch's history, independent trading may have become established, but the whole of the records may still be kept at the Head Office. In such a case, the Branch is, for book-keeping purposes, regarded much in the light of a separate department of the Head Office of the undertaking, and the records kept at the Head Office will be framed upon departmental lines. A separate **Branch Ledger** is kept at the Head Office, in which all Branch transactions and Ledger Accounts, *e.g.* Purchases, Sales, Stock, Debtors, Expenses, etc., are grouped together, apart from the rest of the book-keeping; a Control Account for this Branch Ledger is frequently kept, having its counterpart in the "Branch Ledger Control Account" in the General Ledger; but inasmuch as the whole of the transactions pass through the one set of Head Office books, there can scarcely be said to be any special features in the book-keeping involved which call for detailed explanation. The characteristics of departmental book-keeping and control accounts have already been explained; and the book-keeping of a Branch, which is wholly carried out in the Head Office books is merely departmental book-keeping, supplemented by control accounts in a separate Ledger.

When, however, a Branch establishes itself in a position of more or less independent trading, albeit the Head Office may still supply it with all its commodities or capital, or assist it in other ways, it usually becomes necessary for the Branch to effect its own book-keeping.

The Branch will then keep a separate set of books upon the Double Entry method in the ordinary way, and, except for the single Ledger account, to be explained later on, entitled "Branch Account," none of the Branch transactions appears in the Head Office books. The Head Office and the Branch will, for book-keeping purposes, regard each other in the light of ordinary debtor and creditor, the current account kept by the Head Office for the Branch in its Ledger being entitled "——Branch

Account," and the current account kept by the Branch in its Ledger for the Head Office being entitled "Head Office Account." All sums or commodities remitted or disbursed by the Head Office to or for the Branch will be debited by the former to the latter (in the Branch Account), and credited by the latter to the former (in the Head Office Account), and *vice versa;* the relation so far, for book-keeping purposes, being exactly as though the Head Office and its Branch were two independent undertakings effecting frequent transactions with each other, instead of being sections of one combined concern. This relation of debtor and creditor as between the Head Office and the Branch is sometimes carried further than mere book-keeping entries. A Head Office will frequently sell and invoice to its Branch the goods wherewith the latter carries on its trading, just as it would do if it were selling them to an outside customer. It will sometimes even hold its Branch bound to remit for these goods, just as would be the case with an ordinary customer, except, of course, that there can be no question of actual liability, or of any legal action to enforce it. Many of these ordinary trade customs, as between the Head Office and the Branch, are brought into operation in order to ease the task of finance at the Head Office, and to afford a more efficient check upon the Branch manager, both as regards his finance and the results of his administration.

In Branch book-keeping upon the lines just indicated the Head Office concerns itself with its own book-keeping, and, except for the Branch Account kept by it, is not cognisant of the Branch book-keeping at all. The Branch similarly manages its own affairs, and has no cognisance of the Head Office book-keeping beyond the entries contained in its own account at the Head Office, as complemented by similar entries in its own Head Office Account.

At the end of any given trading period the Branch prepares, in its own books, a Profit and Loss Account which will show, in the usual way, a balance either of profit or loss. This balance of profit or loss is transferred from the Profit and Loss Account, not to the credit or debit of a Capital Account (for such an account does not exist in the Branch books) but to the credit or debit of the Head Office Account. This entry emphasises the fact that the Head Office Account in the Branch books

represents the indebtedness of the Branch to its "proprietor."

Concurrently the Head Office will, at the end of each trading period, duplicate in its Branch Account the entry for Profit or Loss made by the Branch Office in the Head Office Account, debiting the Branch Account with any profit made at the Branch, and crediting its own (Head Office) Profit and Loss Account with the like sum, or crediting the Branch Account with any loss the Branch may have sustained and debiting its own (Head Office) Profit and Loss Account. Any profit or loss made at the Branch is thus eliminated from the Branch books, and brought into the Head Office trading results for the period under review.

At the close of a financial period it will be necessary for the Head Office of the concern to prepare a Balance Sheet showing the position of the undertaking as a whole, and incorporating both the Trial Balance prepared by the Head Office from its own books and the separate Trial Balance prepared by the Branch from the set of books kept there.

In the Head Office Trial Balance the Branch will be shown either as a debtor or a creditor for a given balance of account. Inasmuch as every entry originated either by the Head Office or its Branch, and entered in the current account kept between them, is duplicated by the other party to the account on the opposite side of the Ledger, it must follow that for whatever sum the Head Office may show its Branch as a debtor or creditor in its Trial Balance, for that same sum the Branch must show the Head Office as respectively creditor or debtor in its own Trial Balance; *e.g.* if in the Head Office Trial Balance the Branch Account appears as a debtor for £1,500, in the Branch Trial Balance the Head Office Account must be shown as a creditor for £1,500.

Owing to the fact that the balances of the current accounts of the Branch and Head Office coincide in this manner it is possible to construct a combined Trial Balance and Balance Sheet of the whole undertaking.

If two "agreed" Trial Balances be taken, one of which includes a certain balance (either debit or credit), while the other includes the same balance on the opposite side to that upon which it appears in the former, it is possible to eliminate this particular balance in either statement,

and thereupon to combine the remaining balances in either statement into one "combined" Trial Balance, the sides of which will still agree.

Consequently, if the Trial Balance of a Branch showing the Head Office balance for a certain amount on one side of the Ledger be combined with the Trial Balance of the Head Office books (in which is shown a Branch Account balance for the same amount on the opposite side), a consolidated Balance Sheet of the whole concern can be prepared showing the combined position of both the Branch and the Head Office.

This principle is carried out in the example annexed, in which the combined Balance Sheet of an undertaking is prepared from the separate Trial Balances extracted from the Head Office and the Branch books.

THE BRITISH BOOT MANUFACTURING CO., LTD.

LONDON OFFICE TRIAL BALANCE, December 31, 19—

	Dr.			Cr.		
	£	*s.*	*d.*	£	*s.*	*d.*
Cash at Bank	3,294	16	2			
Stock of Goods on hand	30,761	3	4			
Sundry Debtors	32,176	19	2			
Sundry Creditors				20,766	12	4
Share Capital, 20,000 Shares of £1 each, fully paid				20,000	0	0
Debentures				40,000	0	0
Plant and Machinery	4,130	12	6			
Patents and Goodwill	5,000	0	0			
Leicester Branch Account	7,423	1	2			
London Profit and Loss Account (Balance)				2,020	0	0
	£82,786	12	4	£82,786	12	4

THE BRITISH BOOT MANUFACTURING CO., LTD.

LEICESTER BRANCH TRIAL BALANCE, December 31, 19—

	Dr.			Cr.		
	£	*s.*	*d.*	£	*s.*	*d.*
Stock of Goods on hand	3,496	12	9			
Sundry Debtors	3,592	15	7			
Leasehold Premises	1,200	0	0			
Cash at Bank	351	7	0			
London Office Account				7,423	1	2
Leicester Profit and Loss Account (Balance)				1,217	14	2
	£8,640	15	4	£8,640	15	4

THE BRITISH BOOT MANUFACTURING CO., LTD.

BALANCE SHEET, as at December 31, 19—

LIABILITIES.	£	s.	d.	ASSETS.	£	s.	d.
Share Capital:				Goodwill and Patent Rights at cost	5,000	0	0
Authorised 25,000 Shares of £1 each £25,000				Plant and Machinery, at cost less depreciation ...	4,130	12	6
Issued 20,000 Shares of £1 each	20,000	0	0	Leasehold Premises, at cost	1,200	0	
Debentures	40,000	0	0	Stock of Goods on hand— London £30,761 3 4; Leicester 3,496 12 9	34,257	16	1
Sundry Creditors	20,766	12	4	Sundry Debtors— London £32,176 19 2; Leicester 3,592 15 7	35,769	14	9
Profit and Loss Account— London £2,020 0 0; Leicester 1,217 14 2	3,237	14	2	Cash at Bank— London £3,294 16 2; Leicester 351 7 0	3,646	3	2
	84,004	6	6	£	84,004	6	6

NOTE.—In a Balance Sheet prepared for publication the details relating to the "London" and "Leicester" Branch balances would not be shown, only the totals given in the principal column being included. The Head Office and Branch totals have been stated separately in the above example for the sake of clearness.

In preparing the combined Balance Sheet of a firm having a Head Office and one or more Branches in the manner illustrated above, it must be borne in mind that no "agreement" of the consolidated Balance Sheet can be effected unless the Head Office and the Branches schedule each other reciprocally as debtors and creditors for like amounts. It sometimes happens that a Head Office will, on the last day of a given financial period, remit money to a Branch, debiting the Branch therewith when making the remittance; the money may not, however, reach the Branch until the next day, *i.e.* after the books have been closed. As a consequence of transactions of this kind, it may sometimes happen that a Head Office schedules a Branch in its Trial Balance as a debtor (or creditor) for a greater sum than is acknowledged in the Trial Balance of the Branch.

The amount of the Head Office balance must, in such a case, be made to tally with the Branch balance before any preparation of a combined Balance Sheet is attempted. This can be effected in the Head Office books by transferring any remittances made to the Branch, but not received by the latter until after date of balancing, from the Branch account into a "Remittances in Transit Account"; in this way the Head Office balance will be brought into agreement with the Branch balance, and the

elimination of the two equal balances is permissible when preparing a combined statement.

Other entries initiated by the one and not yet responded to by the other, are bound to occur as between a Head Office and its Branches, and will need adjustment as "suspense" items as explained above.

Where a concern comprises a Head Office with more than one Branch, elimination of the equal (and opposite) Branch and Head Office Accounts, when preparing a combined Balance Sheet of the whole undertaking, is effected in the manner previously described. Again, where inter-Branch Accounts exist as well as accounts between the Head Office and Branches, the principle of eliminating Branch, Head Office and inter-Branch Accounts (subject to them all having been brought into agreement with one another) applies, and the procedure is identical.

An example of the preparation of a combined Balance Sheet, where remittances in transit at the date of balancing have caused the Branch and Head Office reciprocal balances to differ, is appended.

PLAYER BROS., LONDON AND LINCOLN.

LONDON OFFICE TRIAL BALANCE, December 31, 19—

	Dr.			Cr.		
	£	s.	d.	£	s.	d.
Cash at Bank	1,050	16	2			
Sundry Debtors	8,346	9	5			
Stock of Goods	3,241	9	2			
Sundry Creditors				3,848	7	1
Lincoln Branch Account	1,209	12	4			
Partners' Capital Accounts				10,000	0	0
	£13,848	7	1	£13,848	7	1

PLAYER BROS., LONDON AND LINCOLN.

LINCOLN BRANCH TRIAL BALANCE, December 31, 19—

	Dr.			Cr.		
	£	s.	d.	£	s.	d.
Cash at Bank	504	16	2			
Stock of Goods	1,507	12	9			
Sundry Creditors				1,102	16	7
London Office Account				909	12	4
	£2,012	8	11	£2,012	8	11

NOTE.—On December 31 the London office remitted to the Lincoln Branch £100 cash, which did not arrive until the next day; it also, on December 31, dispatched goods to the Lincoln Branch of the value of £200, which did not arrive until January 4. Both these items were debited by London to Lincoln on the day of dispatch, and were credited by Lincoln to London on the day of arrival.

PLAYER BROS., LONDON AND LINCOLN.

BALANCE SHEET, as at December 31, 19—

LIABILITIES.	£	s.	d.	ASSETS.	£	s.	d.
Partners' Capital	10,000	0	0	Stock of Goods on hand—			
Sundry Creditors—				London ... £3,241 9 2			
London ... £3,848 7 1				Lincoln ... 1,507 12 9			
Lincoln ... 1,102 16 7				In Transit 200 0 0			
	4,951	3	8		4,949	1	11
				Sundry Debtors	8,346	9	5
				Cash in Bank—			
				London ... £1,050 16 2			
				Lincoln...... 504 16 2			
				In Transit 100 0 0			
					1,655	12	4
£	14,951	3	8	£	14,951	3	8

NOTE.—In preparing the above combined Balance Sheet, the "Lincoln Branch Account" in the London books (£1,209 12*s.* 4*d.*) is reduced to £909 12*s.* 4*d.* (a figure which tallies with the London Account in the Lincoln books), £200 being debited to "Goods in Transit," and £100 to "Cash in Transit" as at the date of balancing.

One other type of Branch Account, proceeding upon ordinary principles but containing special features, may be mentioned in conclusion, viz. those relating to Branches where all the commodities dealt in are supplied by the Head Office, and are charged to the Branch not at cost price but *at the price which the Branch is to sell them.*

In order fully to record the transactions in such a case, it is usual to keep a "Branch Stock" or "Branch Goods" Account, in the Head Office Books, separate from the account recording other transactions with the Branch, otherwise the book-keeping may be the same as in other cases. Moreover, to facilitate the preparation of the Branch Trading Account and the reduction of the Stock to *cost price* for inclusion in the Balance Sheet, a "Branch Stock Adjustment Account" is also kept in the Head Office Books, in which is recorded the difference between the cost and selling prices of the goods sent to the Branch.

Since the Branch is charged with all goods at "*selling price*," it obviously cannot show any gross profit in its books; the gross profit is shown in the Head Office Books as illustrated below :—

Example.—A multiple store opened a new branch in Maidenhead on January 1, 19—, invoicing all goods to the Branch at selling price, which was fixed to realise a gross profit of 33⅓ per cent. thereon. During the year, goods costing £10,000 were sent to the Branch; and the Branch Sales amounted to £12,000 (at selling price).

The accounts in the Head Office Books would appear as follows :—

MAIDENHEAD BRANCH STOCK ACCOUNT

Dr. Cr.

			£	s.	d.				£	s.	d.
19— Dec. 31	To Goods at Selling Price		15,000	0	0	19— Dec. 31	By Branch Account—Sales during year		12,000	0	0
							,, Stock at Selling Price carried down		3,000	0	0
		£	15,000	0	0			£	15,000	0	0
19— Jan. 1	To Stock brought down		3,000	0	0						

MAIDENHEAD BRANCH STOCK ADJUSTMENT ACCOUNT

Dr. Cr.

			£	s.	d.				£	s.	d.
19— Dec. 31	To Branch Profit and Loss Account—Gross Profit for Year ...		4,000	0	0	19— Dec. 31	By Branch Stock Account — profit included in selling price—33⅓%		5,000	0	0
	,, Balance, being 33⅓% on Branch Stock, carried down ...		1,000	0	0						
		£	5,000	0	0			£	5,000	0	0
						19— Jan. 1	By Balance brought down		1,000	0	0

GOODS SENT TO BRANCHES ACCOUNT

Dr. Cr.

			£	s.	d.				£	s.	d.
19— Dec. 31	To Head Office Trading Account	£	10,000	0	0	19— Dec. 31	By Maidenhead Branch —Goods at cost............	£	10,000	0	0

It will be seen that the cost price of the goods is arrived at as follows—

Stock at Branch at selling price . .	£3,000
Less Adjustment Account . . .	1,000
Cost Price	£2,000

So far as goods invoiced to the Branch are still held by the Branch, the profit credited to the Adjustment Account has not yet been earned, and the profit taken on such stock must obviously be carried down on the Adjustment Account as shown in the above example.

The practice of invoicing goods to a Branch at selling price affords a better check, in many cases, upon the employees, and leakage of stock is minimised. At any given date the Branch must have in hand either stock (taken at selling price), book debts, or cash to the amount of its debit in the Head Office books, and any defalcations should, under this system, become quickly apparent.

This system also greatly facilitates the process of taking stock, a procedure which is carried out at frequent intervals by the great "Multiple Shop" concerns, which almost invariably employ the practice of invoicing all goods supplied to the various Branches at selling prices.

The goods sent to Branches Day Book must be in columnar form with three columns for each Branch, these columns recording (*a*) Cost Price, (*b*) Profit, (*c*) Selling Price. Column (*a*) is credited in total to the Goods sent to Branches Account; column (*b*) is credited to the Branch Stock Adjustment Account; and column (*c*) is debited to the Branch Stock Account.

The system as here described is specially applicable to concerns owning many retail Branches doing an almost exclusively cash business, *e. g.* tobacconists. In such cases, the Branch is commonly required to bank daily its gross cash takings for the credit of Head Office. In the Head Office books, the Branch Account is credited with this cash. Cheques are then remitted weekly, on the Imprest System (as already described for Petty Cash) to the Branch with which to pay wages and expenses. The expenses are debited to appropriate accounts kept in the Head Office Books for each Branch, from which the Head Office can prepare the Branch Profit and Loss Account in due course.

Foreign Currencies

In the preceding part of this chapter the principles upon which transactions between a Head Office and its Branches are recorded have been outlined. In the cases illustrated therein, however, it was assumed that the currency of the parent house and the Branch were the same in each case (*i. e.* British): it is necessary therefore

to supplement the explanations given above with particulars of the method of dealing with the accounts of firms which have established branches in countries whose monetary system differs from that of the parent house.

The explanations previously given in regard to Branch Accounts apply as between a home firm and its foreign Branch; no new book-keeping principles are involved; the only difference arises from currency fluctuations. The rule that Head Office and Branch treat each other, for book-keeping purposes, as debtors and creditors applies with equal force. The method upon which Branch profits are brought into the Head Office books by means of a debit to the Branch Account also applies in principle. It is, however, generally impracticable to adopt the system of invoicing goods to Foreign Branches at selling prices.

The Head Office books must, of course, be kept in sterling in order that a sterling Trial Balance may be available; and, at the same time, the Branch books must be kept in currency in order that records of local trading may be forthcoming in convenient form. There are thus two sets of books kept concurrently, one at home in sterling, and the other abroad in foreign currency, and transfers of value are continually passing from the one set of books (kept in sterling) to the other set of books (kept in the local currency), or *vice versa*, through a Branch Account kept in the home set of books in sterling, and complemented in a Head Office Account kept in the local currency in the books of the Foreign Branch.

I. Branches with Stable Rates of Exchange

If the foreign Branch is established in a country where the rates of exchange with London are stable, the problem of dovetailing the foreign Trial Balance, the foreign profit made, and remittances between the Head Office and the foreign Branch into the Head Office books becomes a simple one. If a certain amount of the foreign currency can be uniformly taken to be the equivalent of £1 sterling, all the transactions with the foreign Branch which involve local currency can be recorded in sterling in the Head Office books upon the basis of this exchange ratio, and the "local currency" balance of the Head Office Account upon the Branch books, if converted into sterling at this rate, will equal the balance of the Branch Account kept in sterling in the Head Office books. A

further consequence is that, without upsetting the agreement of the Head Office books, the Branch Trial Balance can be converted into sterling and amalgamated with the Head Office Trial Balance (eliminating, of course, the balances of the Head Office and Branch Accounts), and the profit made by the Branch, when converted into sterling at the fixed rate, can be credited to the Head Office Profit and Loss Account in the ordinary way.

This assumption is possible in the case of some European countries, the United States of America, and all the British Dominions. The truth of the assumption rested formerly on the fact that the currencies of all these countries was based on a uniform standard, gold, the result of which was that the variations of exchange rate between the various currencies in question could not in practice exceed a small margin which represented the cost of sending gold from one country to another. Between the two wars, however, many countries got into greater or less financial difficulties and had to "depreciate" their currencies, with the result that the old "fixed" exchange rates no longer apply. These difficulties were greatly accentuated by the war of 1939–45, since when the buying or selling (in Great Britain and many other countries) of foreign currencies is only possible in accordance with strict Government regulations. Among these regulations are decrees exactly fixing arbitrary official rates of exchange with foreign countries and in this sense all such currencies are now "fixed." Complications are caused, however, by the fact that in many cases these fixed rates differ very widely from the rates that would be in force if the laws of supply and demand were allowed to operate freely, with the result that side by side with the "official rate" is a "black market" rate, for the exchange of currencies through unofficial or illegal channels; the "black market" rate may be very different from the official rate and anything but "fixed." In some countries (France is a present example) there may even be two "official rates," according to the nature of the transaction for which the currency is required, and France has even gone so far as to legalise a third "free" rate, for transactions with specified countries outside the categories to which the "official" rates apply. From this the student will see that the study of foreign exchange has become more than a little difficult for the exporter or importer. For

the student of book-keeping, however, it will be sufficient to consider whether or not the exchange under consideration is stable or not and apply the rules accordingly: in an examination exercise the rates required to be used will always be given.

In the case, therefore, of foreign Branches situated in any "stable exchange" country, which keep their books in the local foreign currency, an arbitrary rate of exchange can be assumed for converting items from currency into sterling and *vice versa.*

The Branch Account in the Head Office Ledger should be ruled with columns for sterling and currency on either side, and all assets sent by the Branch to the Head Office, or *vice versa,* should be passed through this account in both sterling and foreign currency, the conversion being effected at the agreed "fixed" rate of exchange. In remitting cash from the Head Office to the Branch, or *vice versa,* the rate of exchange at which the remittance is actually effected through a bank will, in all probability, differ from the rate of exchange assumed for the purposes of book-keeping records. In order to preserve the continuity of the assumed rate of exchange throughout the books, the number of dollars, francs, marks, or whatever the currency expression of the remittance may be, must be worked out in sterling at the assumed rate, and the sterling figure so arrived at is the amount which must be entered in the Branch Account in the Head Office books; the difference between this sterling figure and the sterling sum actually paid to or received from the bank should be regarded as so much incidental premium or discount, and should be carried to Profit (or Loss) on Exchange Account.

An illustration of this principle may perhaps be given here with advantage. Assume that a London house with a Branch in Zurich, working upon a "fixed" exchange of 17.50 fcs. to the £, remits to the latter a cheque for fcs. 17,500 bought in London from the Swiss Bank corporation.

For this cheque the London house will pay, according to the rate of the day, say 17.60 (*i. e.* $17\frac{6}{10}$th francs, being the equivalent of £), viz. £994 6*s.* 4*d.* The Head Office will not, however, debit the Zurich house with £994 6*s.* 4*d.*, but with 17,500 francs at an exchange of 17.50, viz. £1,000, and will credit the difference between the actual cost of the francs (£994 6*s.* 4*d.*) and the assumed value

at the "fixed" rate (£1,000), *i.e.* £5 13*s.* 8*d.*, to Profit (or Loss) on Exchange Account kept in its own books.

Conversely, if the Zurich house buys a draft for £1,000 at exchange 17.60, paying 17,600 fcs. therefor, and remits it to London, the London house must credit the Zurich Branch with 17,600 fcs, and £1,005 14*s.* 3*d.* sterling, debiting £5 14*s.* 3*d.* to the Profit (or Loss) on Exchange Account, and £1,000 to its bankers.

If remittances between a Head Office and its Branch are numerous it is more convenient to post the cash in the first place to a Remittance Account, instead of to the Branch Account. The Remittance Account has columns for both currency and sterling figures and in the currency column are entered the actual amounts of currency and sterling received or paid. At the end of the year, or whenever it is convenient to balance the account, the balance is converted at the fixed rate of exchange and transferred to the Branch Account, which thus shows only a single total figure for all remittances during the period. The balance remaining in the sterling column of the Remittance Account represents the net total or balance of the differences of exchange arising on all the remittances. It will be seen, therefore, that one calculation only is necessary, at balancing time, instead of separate calculations in respect of each single transaction, a considerable saving of time.

Where a business is working on a "fixed" rate of exchange in this manner, and remittances between the Head Office and its Branches are numerous, the "profits and losses" on exchange will frequently equalise one another approximately. If the assets carried in the Branch books are considerably in excess of the amount of the local creditors, the use of a fixed rate of exchange, which is in reality below the normal rate (*i.e.* in which the number of units of local currency taken for the fixed rate is less than in practice), may cause slight over-valuation of the excess of foreign assets over liabilities, and thus tend slightly to overstate the assets in the London Balance Sheet as a whole. Where this tendency is apparent, a reserve for loss on exchange should be built up in the London Books, and for this purpose the "profits" apparent on remittances may be utilised.

A form of Ledger account containing columns for sterling and local currency suitable to contain the record

PHILADELPHIA BRANCH ACCOUNT

Dr. (Exchange, $4.03 to the £) Cr.

Date	Details.	L.F.	$	£	s.	d.	Date.	Details.	L.F.	$	£	s.	d.
19—							19—						
Jan. 1	To Balance brought forward		4,030.00	1,000	0	0	Jan. 15	By Cash		16,120.00	4,000	0	0
,, 20	,, Goods		213 59	53	0	0	,, 16	,, Proceeds of securities sold		3,224.00	800	0	0
Feb. 9	,, Goods		16,120.00	4,000	0	0	,, 20	,, Returns		145.08	36	0	0
,, 17	,, Goods		8,304.99	2,060	15	10	Feb. 12	,, Cash		830.50	206	1	7
,, 27	,, Goods		9,965.99	2,472	19	0	,, 18	,, Cash		8,304.99	2,060	15	10
							,, 28	,, Balance carried down		10,010.00	2,483	17	5
		$	38,634.57	£9,586	14	10			$	38,634.57	£9,586	14	10
19—													
Mar. 1	,, Balance brought down...	$	10,010.00	£2,483	17	5							

NOTE.—The above account represents the account kept by a Head Office in its Ledger for a Branch business owned by it at Philadelphia, U.S.A. The concern is one in which every transaction is converted at the fixed official rate of exchange of $4.03 to the £.

of Branch Accounts and Remittance Accounts is on p. 404, the entries in which are sufficiently clear without further explanation.

An example of the Trial Balances appertaining (1) to the London Head Office and (2) to the Indian Branch of a London firm having a branch at Calcutta is also annexed, showing the manner in which the two are amalgamated. A fixed rate of Exchange of 13⅓ rupees to the £ has been adopted throughout the business.

LONDON & BENGAL TRADING CO., LTD., LONDON & CALCUTTA.

LONDON TRIAL BALANCE, December 31, 19—

	Dr.			Cr.		
	£	s.	d.	£	s.	d.
Share Capital—						
10,000 Shares of £1 each				10,000	0	0
Reserve				1,000	0	0
Investments:						
£500 London County 3½ per cent. Stock at cost	494	15	0			
Sundry Debtors	762	4	9			
Calcutta Branch Account	4,547	5	0			
Sundry Creditors				39	11	4
Cash at London and Westminster Bank ...	839	4	7			
Profit and Loss Account, balance January 1, 19—				609	10	9
Goodwill	5,000	0	0			
Loss on Exchange	5	12	9			
	£11,649	2	1	£11,649	2	1

LONDON & BENGAL TRADING CO., LTD., LONDON & CALCUTTA.

CALCUTTA TRIAL BALANCE, December 31, 19—

	Balances as rendered by Calcutta Branch.		Balances as converted into sterling at fixed exchange of rupees 13⅓ to £.					
	Rupees.	*Rupees.*	£	s.	d.	£	s.	d.
Cash at Bank of Bengal	*15,060.00*		1,129	10	0			
Stock of Goods on hand	*30,030.00*		2,252	5	0			
Sundry Debtors ...	*154,515.00*		11,588	12	6			
Bills Receivable ...	*30,900.00*		2,317	10	0			
Freehold Land and Buildings	*15,000.00*		1,125	0	0			
Plant and Machinery	*45,075.00*		3,380	12	6			
Sundry Creditors ...		*180,915.00*				13,568	12	6
Head Office Account		*60,630.00*				4,547	5	0
Profit and Loss Account (Balance, net profit for year)		*49,035.00*				3,677	12	6
	Rs. 290,580.00	*Rs. 290,580.00*	£21,793	10	0	£21,793	10	0

LONDON & BENGAL TRADING CO., LTD., LONDON & CALCUTTA

BALANCE SHEET, December 31, 19—

LIABILITIES.	£	s.	d.	ASSETS.	£	s.	d.
Share Capital— *Authorised* 15,000 Shares of £1 each £15,000				Goodwill, at cost	5,000	0	0
Issued 10,000 Shares of £1 each	10,000	0	0	Plant and Machinery, at cost..........................	3,380	12	6
Reserve	1,000	0	0	Freehold Land and Buildings, at cost	1,125	0	0
Sundry Creditors— London ... £39 11 4; Calcutta ...£13,568 12 6	13,608	3	10	Stock on hand	2,252	5	0
				Sundry Debtors	12,350	17	3
				Bills Receivable	2,317	10	0
Profit and Loss Account— Balance brought forward £609 10 9; Net Profit for the year ... £3,671 19 9	4,281	10	6	Investment— £500 London County 3½ per cent. Consolidated Stock, at cost	494	15	0
				Cash at Bank— London ... £839 4 7; Calcutta ...£1,129 10 0	1,968	14	7
£	28,889	14	4	£	28,889	14	4

It has been assumed for the purposes of the foregoing explanations that the Branch assets and liabilities are contained in the currency Ledger kept at the Branch and not in the sterling Ledger at the Head Office. Very little reflection will show that Branch assets such as Buildings, Plant, etc., could as far as book-keeping record is concerned, be kept just as conveniently in the Head Office books as in the Branch books. Any assets bought, or constructed and paid for, by a Branch can be written off its books and transferred to a new account opened in the London books, by means of the Branch Account open between the houses; if, however, such assets are transferred to the home books, columns in the home Ledger for the insertion of the local currency cost will be needed. It would be a difficult matter to keep the foreign branch debtors and creditors in the Head Office books in lieu of at the Branch; the entry of these particulars in the Head Office Ledger does not therefore arise for consideration.

Where the foreign Branch or business is not a trading business, and the keeping of proper local books is impossible owing to inefficient administration, expense, or other causes, it may become necessary to keep the foreign Branch books in England. In this case they can be kept upon lines similar to those which would be

adopted if they were being kept at the Branch; a Branch Cash Book, Journal, and Ledger can all be kept in the local currency notwithstanding the fact that they are being kept in England, and the Trial Balance of, or the totals appearing upon, the foreign Ledger can be converted into sterling at the end of the year at the assumed rate of exchange. Where the currency balances on the Branch Ledger are thus converted into sterling at periodical intervals the use of a Ledger similar in form to that illustrated on p. 404 is necessary.

Some accountants, when keeping foreign Branch books *in extenso* in this country, prefer to convert every transaction from currency into sterling at an agreed rate of exchange. This makes the work of conversion unnecessarily laborious, and there is usually no valid reason why it should be undertaken, a periodical conversion of the debit and credit Ledger totals being all that is needed.

If the Trial Balance *only* of the Branch Ledger is converted the necessary labour can be still further reduced.

II. Branches with Fluctuating Rates of Exchange

The book-keeping of a concern owning a Branch situate in a country where the value of the local currency expressed in the pound sterling is subject to constant fluctuations becomes less simple than is the case where the exchange is a stable one.

The general scheme of the books is identical with the system first described above as suitable for use in the case of a Branch where the exchange is stable, except in regard to remittances as between the Head Office and the Branch, and *vice versa*, and the conversion of the Branch Trial Balance and profits at the end of the year.

In the present case, as in the former, the Branch books are kept in currency only, the Head Office being credited in currency with all sums received from it, and with the balance of profits, and being debited in currency with all the sums remitted to it. The Branch assets and liabilities are assumed for the moment to be kept in the Branch books.

The Head Office will keep a Branch Account in

sterling in its Ledger, having memorandum columns for currency annexed, together with a Remittance Account containing similar columns. The use of a Remittance Account, into which remittances can be entered immediately upon their occurrence, is practically essential in the case of a fluctuating currency, though not in the case of a stable one. This account will contain the remittances for the year or other trading period, and will be closed at the end of the year by a transfer to the Branch Account.

Throughout the whole of the given period the Head Office and Branch books are run separately, though concurrently, and at the end of the year the question arises of the conversion of the Branch Trial Balance into sterling, and its subsequent amalgamation with the Head Office sterling Trial Balance.

The Branch Trial Balance is, of course, entirely in local currency; the rate of exchange of this currency has fluctuated throughout the year, and stood at a particular figure at the end of the year.

The whole of the Branch Trial Balance requires to be converted into a sterling Trial Balance, which latter must "agree."

The Balances comprised in the Branch Trial Balance should be converted into sterling at the following different rates of exchange, the conversion being effected in the sterling columns annexed to the Branch Trial Balance; this will of itself produce a Trial Balance in sterling which fails to agree; the sterling Trial Balance must then be made to agree by inserting the amount of the difference on the side upon which it is needed, such difference being called the "Profit" or "Loss" upon Exchange, and treated as such.

The conversion rates are as under—

1. Convert the Fixed Assets held at the Branch (*i. e.* the assets held for use, such as Buildings and Plant) at the rates of exchange ruling when they were bought. Additions to these assets should be treated in the same manner.
2. Convert the Current Assets (*i. e.* the assets held for conversion into money, such as Cash, Book Debts, and Stock) at the rate of exchange current on the last day of the period, and convert the amount owing to the local creditors at the end of the period at the same rate.

3. Convert all Profit and Loss balances, or the balance of the Branch Profit and Loss Account, if that alone be shown, at the average rate ruling throughout the financial period.
4. Convert all remittances for the period (*i. e.* balance of the Remittance Account) at the actual sterling equivalent ruling when they were made as shown by the Remittances Account in the Head Office books.
5. Convert the balance of the Head Office Account at the commencement of the financial period at the rate at which it was included in the Trial Balance prepared at the end of the previous period.

The instruction (No. 1) to convert the Fixed Assets into sterling at the rates ruling at the time of their purchase means in practice that—

(*a*) The Fixed Assets bought prior to the commencement of the trading period under review are converted at the same rates as were used in the Balance Sheet made up at the end of the previous trading period.

(*b*) The Fixed Assets bought, during the trading period under review, must be converted at the average rate for the period or the rate at which any special remittance for the purpose of buying such assets was made.

The Fixed Assets are converted at the rates of exchange ruling at the time of their purchase because they remain in the foreign country, and because their value for use, not for conversion into money, is all that concerns the Head Office.

Current Assets and Liabilities are converted at the rate ruling on the last day of the financial period, because, in either case, conversion into money or satisfaction in money is contemplated, and by converting at these rates the same position is shown as would arise if liquidation actually took place on the last day of the period.

All Profit and Loss Account balances are converted at the average rate ruling during the financial period, because

they may reasonably be taken to have accrued more or less continuously throughout the period.

As has already been mentioned, upon conversion of the Trial Balance taking place, the amount necessary to make its two sides agree is inserted as Profit or Loss on exchange. The Trial Balance then becomes an "agreed" one, and the transfer of the profit to the Head Office Profit and Loss Account can take place in the ordinary way by means of a debit to the Branch Account in the Head Office books; the balance of the Remittance Account must also be transferred into the Head Office Account. Amalgamation of the Branch Trial Balance (in sterling) with the Head Office Trial Balance can then be effected in the ordinary way. When a "loss on exchange" has occurred, it should be debited against current revenue as it arose in connection with the floating assets and liabilities. When, however, a "profit on exchange" is shown, it is more prudent to place it to reserve to provide for future possible losses.

These principles are illustrated in the subjoined example.

A. Brown & Co., London and Illyria.

ILLYRIA TRIAL BALANCE December 31, 19—

	Dr.	Cr.
	Milreis.	Milreis.
Freehold Land and Buildings (at Jan. 1, 19—)	250,000.000	
Freehold Land and Buildings (additions during year)	11,000.000	
Stock of Goods on hand (Dec. 31, 19—)	32,032,000	
Sundry Debtors	160,640.000	
Sundry Creditors		96,656.000
Bills Receivable	48,496.000	
Investment: Milreis 50,000, State of Illyria Internal 5 per cent. Bonds, bought at 90	45,000.000	
Cash at London & Brazilian Bank	49,632.000	
Profit and Loss Account (balance, Dec. 31, 19—)		60,672.000
Head Office Account (balance, Jan. 1, 19—)		599,472.000
Remittance Account (£10,000 remitted to London)	160,000.000	
	Ms. 756,800.000	Ms. 756,800.000

Note.—Freehold Land and Buildings are to be converted at the rate ruling when the assets were purchased (15½d. per milreis), and the additions at the average rate ruling for 19— (15¼d.). The rate ruling at the close of the year was 15d.; the Investment was bought as a permanent investment and is to be treated as having been bought at a time when the rate ruling was 16d. The equivalent of the Head Office Account balance (Ms. 599,472.000) as shown by the London books is £37,469 12s. 7d.

From the above information prepare the Trial Balance for incorporation with that prepared from the London Books.

A. Brown & Co.

ILLYRIA TRIAL BALANCE, Dec. 31, 19—, as converted into sterling for incorporation in the London Books

Balance.	Rate at which converted.	Dr. £	£	s.	d.
Freehold Land and Buildings	15¼d.	15,885			
Ditto (additions)	15⅛d.	710			
Stock on hand	15d.	2,002			
Sundry Debtors	15d.	10,040			
Sundry Creditors	15d.		6,041	0	0
Bills Receivable........................	15d.	3,031			
Investment: Illyria 5 per cent. Bonds Ms. 50,000, cost Ms. 45,000	16d.	3,000			
Cash at Bank	15d.	3,102			
Profit and Loss Account balance...	15⅛d.		3,918	8	0
Head Office Account (balance, Jan. 1, 19—)	as per last accounts		37,469	12	7
Head Office Account (remittances, 19—)	15d. (actual rate)	10,000			
*Profit on Exchange..................			341	16	1
		£47,770 | 16	£47,770	16	8

* This item will be credited to "Profit on Exchange" and debited to the Branch Account in the Head Office books at December 31, 19—. The balance of profit shown by the above Trial Balance will be debited to the Branch Account in the Head Office books, and credited to the Head Office Profit and Loss Account in the ordinary way.

In the case of British companies whose entire income is earned abroad—a company owning and working a tobacco plantation, for example—practically the whole of the local expenditure is in cash, and, on the other hand, the proceeds of the crop, which is sold in Europe, pass through the Head Office books only.

In such cases, even where the local currency fluctuates considerably, it is customary for a fixed rate of exchange to be adopted. The monthly expenditure upon the plantation is returned in the form of a monthly columnar Cash Return, in which analysis columns are provided for the various headings of expenditure, which ultimately appear in the Crop Cost Account. These sheets are entered, *in the local currency,* in a Foreign Journal kept in columnar form at the Head Office, and the additions of each column are carried forward from month to month until ultimately the totals for the trading period are completed. These totals, at the close of the year or other period, are converted at the fixed rate of exchange and transferred to the Crop Cost Account.

All remittances to the plantation are posted at the

fixed rate of exchange to the Remittances Account in the Head Office Ledger, and the differences between such sums and the amounts actually realised abroad by the remittances, as shown by the Monthly Cash Returns, are treated as Profit or Loss upon exchange, and are duly transferred to that account in the Head Office books. The net Profit or Loss on exchange for the period is, at the close of the year, apportioned *pro rata* over each item appearing in the Crop Cost Account. In this way each item of expenditure bears its due proportion of the loss upon exchange, or benefits by the profit, as the case may be.

This method greatly simplifies the Head Office book-keeping, and results in a satisfactory adjustment of any currency fluctuations which may have occurred.

The fixed rate of exchange can be adjusted from time to time should the local currency conditions demand its amendment.

EXERCISES.

18A.

From the following Trial Balances, extracted respectively from the books kept at the London office and the Liverpool Branch of Brampton Bros. & Co., Ltd., prepare the combined Balance Sheet of the undertaking as at December 31, 19—.

The London office remitted £1,000 cash to the Liverpool Branch on the afternoon of December 31, 19—, through the London and United Provinces Bank; this remittance was not credited to the firm's Liverpool Branch until the following day.

The Trading and Profit and Loss Accounts have been closed prior to the preparation of the following Trial Balances, the latter consequently only show the net balance of the Profit and Loss Account in either case.

BRAMPTON BROS. & CO., LTD.

London Office Trial Balance, December 31, 19—.

	Dr.			Cr.		
		s.	*d.*		*s.*	*d.*
Share Capital issued, 10,000 shares of £1 each . .				10,000	0	0
Debentures, 6 per cent. First Mortgage .				10,000	0	0
Freehold Premises	3,492	16	6			
Plant and Machinery	1,029	4	10			
Sundry Debtors	10,432	16	1			
Sundry Creditors				2,924	12	3
Cash at Bank .	4,219	16				
Bills Receivable	2,550	0				
Stock on hand	4,216	19				
London Office Profit and Loss Account (Balance) .				4,947	2	6
Liverpool Branch Account	1,930	1	5			
	£27,871	14	9	£27,871	14	9

Note.—The Authorised Capital of the Company is £20,000, divided into 20,000 shares of £1 each.

BRAMPTON BROS. & CO., LTD.

Liverpool Branch Trial Balance, December 31, 19—.

	Dr. £	s.	d.	Cr. £	s.	d.
Cash at Bank	921	4	3			
Stock in hand . . .	1,294	16	3			
Sundry Debtors . . .	2,362	14	9			
Furniture and Fittings . .	104	3	6			
Bills Receivable . . .	150	0	0			
Plant and Machinery . .	462	12	10			
London (Head Office) Account .				930	1	5
Profit and Loss Account (profit for year 19—)				803	15	5
Sundry Creditors . . .				3,561	14	9
	£5,295	11	7	£5,295	11	7

18B.

From the following Trial Balance prepare the Profit and Loss Account and Balance Sheet of L. Smith, a manufacturer whose business is divided into two departments, viz. "A" and "B," for the year 19—. These accounts are to be shown so as to reveal the result of the operations of each department separately as well as the combined result. The expenses appearing in the Profit and Loss Account are to be apportioned as between the two departments according to the net volume of sales for the year in each department.

	Dr. £	s.	d.	Cr. £	s.	d.
Freehold Land and Buildings .	20,500	0	0			
Plant and Machinery . .	14,396	0	0			
Sundry Debtors . . .	2,914	0	0			
Sundry Creditors . . .				23,246	9	5
Manufacturing Wages, Dept. A	3,294	9	1			
,, ,, Dept. B	5,291	4	9			
Manufacturing Charges, Dept. A	2,046	14	2			
,, ,, Dept. B	3,096	4	8			
Stock on hand, Jan. 1, 19—:						
Dept. A	2,049	16	2			
Dept. B	5,629	14	3			
Salaries of Counting house Staff	2,249	10	0			
Rates, Taxes and Insurance .	635	9	9			
General Expenses and Commissions	1,524	18	5			
Capital Account, L. Smith .				30,000	0	0
Cash at Bank and in hand .	10,454	7	1			
Sales, Dept. A . . .				11,324	9	5
,, Dept. B . . .				16,986	14	1
Purchases, Dept. A . . .	4,396	2	1			
,, Dept. B . . .	3,294	1	9			
Returns Outwards, Dept. B .				214	19	3
	£81,772	12	2	£81,772	12	2

Note.—The value of the Stock on hand as on December 31, 19—, was as follows—

	£	s.	d.
Dept. A	3,092	17	6
Dept. B	4,924	10	9

18c.

From the subjoined Trial Balances, extracted from books kept respectively at the London and Berne offices of Reville & Co., Ltd., prepare the combined Balance Sheet of the undertaking as on December 31, 19—. A fixed rate of exchange of 25.20 francs to the £ is employed in the business.

REVILLE & Co., LTD.

London (Head Office) Trial Balance, December 31, 19—.

	Dr. £	s.	d.	Cr. £	s.	d.
Share Capital				10,000	0	0
Stock of Goods on hand (Dec. 31, 19—)	3,295	12	6			
Sundry Debtors	1,926	14	3			
Sundry Creditors				4,991	6	2
Freehold Premises	8,050	12	6			
Furniture, Fittings and Fixtures	132	9	5			
Bills Receivable	450	0	0			
Cash at Bank	456	15	11			
Cash in hand	10	9	6			
Berne Branch Account (fcs. 42,800 at 25.20) . . .	1,698	8	3			
Profit and Loss Account (London), net profit for year 19—.				1,029	16	2
	£16,021	2	4	£16,021	2	4

REVILLE & Co., LTD.

Berne Branch Trial Balance, December 31, 19—.

	Dr. Fcs.	Cr. Fcs.
Sundry Debtors	40,800.05	
Sundry Creditors		28,000.00
Stock of Goods on hand (Dec. 31, 19—)	12,500.00	
Furniture, Fittings and Fixtures	2,000.00	
Bills Receivable	4,500.00	
Cash at Bank	13,097.50	
Insurance paid in advance (proportion unexpired) . . .	98.00	
Cash in hand	1,926.00	
London Office Account (remittances received) . . .		42,800.00
Profit and Loss Account, balance, being net profit for the year 19—		4,121.55
	Fcs. 74,921.55	Fcs. 74,921.55

18D.

1. Explain how the Trading and Profit and Loss Accounts of an undertaking should be framed in a case where it is desired to obtain a separate figure of net profit (or loss) for the trading conducted by each separate department. How should the office salaries and other counting house expenditure be dealt with when preparing departmental accounts?

2. Explain the relations of the Head Office of a trading undertaking with its Branch, and *vice versa*, as regards their book-keeping, in a case where the Branch is supplied with both capital and stock from the Head Office, but otherwise trades in an independent manner.

3. How should the Head Office of a trading concern record the transactions between itself and a Branch Office established in France? Show how, and from what materials, the Balance Sheet of the combined undertaking is to be prepared for publication.

4. A London firm of fancy goods manufacturers establishes a Branch at Rio de Janeiro (where the local currency takes the form of "milreis," and is liable to constant fluctuations in value). Write a detailed explanation for the use of the book-keeper in London, showing how the accounts as between London and Rio de Janeiro are to be kept and adjusted.

Answers—

18A. Balance of Profit and Loss Account, £5,750 17*s*. 11*d*.
Balance Sheet Totals, £32,237 4*s*. 11*d*.

18B. Net Profit: Dept. A, £866 6*s*. 2*d*.; Dept. B, £2,168 19*s*. 9*d*.
Balance Sheet Totals, £56,281 15*s*. 4*d*.

18C. Profit and Loss Account, Credit Balance, £1,193 7*s*. 3*d*.
Balance Sheet Totals, £17,295 15*s*. 8*d*.

CHAPTER XIX

JOINT ACCOUNTS—JOINT ADVENTURE ACCOUNTS, ETC.

It frequently happens that two or more traders agree to embark together in temporary co-partnership in some particular trading adventure or speculation, sharing the resulting profits between them in agreed proportions, and mutually contributing to the expenses incurred in carrying out the undertaking. Such a transaction is called a **Joint Adventure.** There is, in such a case, no need of a partnership name as representing the partners in the adventure, nor does the relationship of the parties necessarily extend beyond the particular transaction contemplated. Apart from these characteristics the operation may be regarded as tantamount to a more or less restricted partnership for the special transaction which has been entered into for the mutual benefit of the parties.

The "adventure" frequently takes the form of a joint consignment of goods, but it may, of course, assume the shape of a joint speculation in stocks or shares, the chartering of a ship, a joint underwriting operation, or any other form wherein the financial or trading resources of those concerned may be profitably employed.

Sometimes, but rarely, the matter is treated as if it were an actual partnership entered into for the special operation, a separate banking account being opened in the joint adventurers' names, and a separate set of books being kept to record the transactions. Then the business resolves itself, for book-keeping purposes, into an ordinary partnership, continuing until conclusion of the venture and then dissolved. The explanations previously given as regards partnership accounts will apply, in such cases, and will regulate the book-keeping for a "joint adventure" of this type.

In the majority of cases, however, owing to the temporary nature of the partnership, it is not worth

while to go to the expense or trouble of keeping a separate set of books for the joint adventure. Each adventurer opens an account in his Ledger for the undertaking, and treats the Joint Adventure as if it were personified; the adventure therefore becomes an ordinary debtor to him for everything disbursed upon its account; similarly, everything received by each adventurer in respect of the joint adventure is credited by him to the Joint Adventure Account.

Upon conclusion of the operation, the Joint Adventure accounts appearing in each party's Ledger are combined into one statement, showing the details of the whole transaction from start to finish. In this statement, the profit shown on the operation is divided between the partners, and each party must then debit his share of the profit to the Joint Adventure Account in his Ledger. The result of thus debiting the profits (or crediting the losses, if losses there be) in each party's books will be to show a certain debit balance upon the Joint Adventure Account in one party's books and a credit balance for the some amount in the Joint Adventure Account in the other party's books. When the adventurer whose Joint Adventure Account shows a credit balance pays the amount of such balance to the other adventurer the Joint Adventure Account on both party's books will close automatically.

In some cases one of the adventurers is appointed to manage the joint adventure, his services being remunerated by a commission on the sales. The appointed manager then opens an Adventure Account, and debits it with the cost of the goods, and collects the agreed proportions of such cost from his fellow adventurers, which is credited to their personal accounts. In due course, the Adventure Account is debited with all expenses and credited with the sales, and, finally the balance of the account, representing the profit on the venture, is divided amongst the adventurers in the agreed proportions and transferred to the credit of their personal accounts.

The principles described above are illustrated in the subjoined example, in which the Joint Adventure Account, as it would appear upon the books of both parties, is shown, together with the combined statement prepared from, but outside the Ledger of either party.

Herbert Wilson of London and Robert Fitch of Cape Town combined in a joint shipment of certain specified fancy goods,

made by the former to the latter; profits being shared equally between them.

Pursuant to the arrangement H. Wilson bought on January 2, 10 cases of fancy goods at £24 10*s*. per case, paying cash for the the same, and paying in addition—

	£	*s*.	*d*.
Railway charges to London, £1 per case .	10	0	0
Freight to Cape Town, £2 10*s*. per case .	25	0	0
Insurance, stamps, and sundries . .	8	4	6

On the same day H. Wilson drew a sight draft upon R. Fitch for £100 on account of the consignment, and sold this bill to the Standard Bank of South Africa for £99 10*s*., the discount upon which is to be borne by the adventurers jointly.

R. Fitch received delivery of the goods from the Shipping Company on January 28, and honoured H. Wilson's draft on the same day. R. Fitch made the following payments on account of the joint venture—

		£	*s*.	*d*.
February 3.	Landing and warehouse charges	8	5	10
January 29.	Government duty . .	15	10	10
February 4.	Stamps, postages, and sundries	1	4	6

R. Fitch sold the whole of the 10 cases of goods on February 2 for cash at £38 per case. On February 4 he prepared, from the entries in his own books and from the details furnished to him of H. Wilson's disbursements, a statement of the combined result of the joint venture, remitting to H. Wilson the amount due to the latter in respect of the transaction together with his share of the profit.

This remittance was made by means of a Bank Draft obtained free of charge, and the draft was cashed by H. Wilson on February 26.

Note.—Questions of interest, as between the partners in the venture, are to be disregarded.

H. Wilson's Ledger.

JOINT ACCOUNT WITH ROBERT FITCH

Dr. **Cr.**

19—.			£	*s*.	*d*.	19—.			£	*s*.	*d*.
Jan. 2	To Cost of 10 cases of fancy goods at £24 10*s*. per case	109	245	0	0	Jan. 2	By Bills Receivable— Bill drawn on account of consignment	B.R. 91	100	0	0
„ 2	„ Railway charges.........	325	10	0	0	Feb. 26	„ Cash received from R. Fitch	376	221	16	8
„ 2	„ Freight	325	25	0	0						
„ 2	„ Insurance, stamps, and sundries	325	8	4	6						
„ 2	„ Discount on Bill drawn on account of consignment......	325	0	10	0						
Feb. 26	„ Share of profit realised (half of £66 4*s*. 4*d*.)	J. 134	33	2	2						
		£	321	16	8			£	321	16	8

R. FITCH'S LEDGER.

JOINT ACCOUNT WITH H. WILSON

Dr. Cr.

19—.			£	s.	d.	19—.			£	s.	d.
Jan. 28	To Draft of H. Wilson, paid	46	100	0	0	Feb. 2	By Proceeds of 10 cases fancy goods sold ...	132	380	0	0
" 29	" Government duty on fancy goods	46	15	10	10						
Feb. 3	" Landing and warehouse charges.........	47	8	5	10						
" 4	" Stamps, postages, and sundries............	J. 246	1	4	6						
" 4	" Share of profit realised (half of £66 4s. 4d.)	J. 247	33	2	2						
" 4	" Cash, cost of Bank Draft remitted to H. Wilson	49	221	16	8						
		£	380	0	0			£	380	0	0

MESSRS. H. WILSON & R. FITCH.

JOINT VENTURE IN FANCY GOODS

(Combined Statement)

19—.			£	s.	d.	19—.			£	s.	d.
Jan. 2	To Cost of 10 cases of fancy goods at £24 10s. per case		245	0	0	Feb. 2	By Proceeds of 10 cases of fancy goods £38 per case		380	0	0
" 2	" Charges in London— Railway charges		10	0	0						
	Freight		25	0	0						
	Insurance and sundries		8	4	6						
	Discount		0	10	0						
" 29	" Government duty at Cape Town		15	10	10						
Feb. 1	" Charges in Cape Town— Landing and Warehouse Charges		8	5	10						
" 4	" Stamps, postages, and sundries		1	4	6						
" 4	" Net Profit divided— R. Fitch £33 2 2; H. Wilson 33 2 2		66	4	4						
		£	380	0	0			£	380	0	0

Cost Accounts

Many manufacturers who formerly regarded cost accounts as a necessary nuisance, now recognise them to be one of the essentials of successful management.

Costing may be defined as a method of accounting designed to ascertain the actual cost of articles manufactured, or of contracts executed, by means of analytical records of the wages paid, the other expenses incurred, and the cost of the raw, or partially manufactured, material used in respect thereof. By means of accurately prepared cost accounts, a business man is enabled to know the exact cost, both direct and indirect, of each article, ton, or other unit of goods which he manufactures, or of each job, or contract, he undertakes. He can thus regulate his selling prices; base estimates or tenders on his past experience; compare trading periods and different methods of manufacture; locate weak points in his factory; eliminate waste and unprofitable work; prevent theft, and inefficiency whether of management or workmanship.

The student must clearly understand that cost accounts are quite distinct from the financial accounts, although the necessary data are obtained from the same sources. Special records and books are necessary for the costing records, and no posting from one set of books to the other is permissible, except where certain books contain "memoranda" columns for convenience, as explained later. The costing results should, however, as nearly as possible, be capable of reconciliation with the financial records, and should be designed to allow periodical comparisons to be made.

No one system of cost accounting can be applied in every detail to all businesses alike. It is clear, therefore, that in a general text-book such as this principles only can be dealt with. Many text-books are available which deal with particular trades and aspects of costing, and to those the student who desires to specialise in the subject is referred. The student desirous of extending his knowledge on the subject will find it dealt with in considerable detail in the author's *Higher Book-keeping and Accounts*.

It is useless to attempt costing unless an accurate system of **Stock and Store Accounts** has first been installed. Indeed, even in the absence of a proper costing system

accurate Store Keeping is essential. The word "Stores" in this connection covers all raw materials, partially manufactured goods, or other articles, used in manufacturing, or in carrying on the business. "Stock," on the other hand, connotes finished goods held for sale. It is essential to keep proper records of all items passing in and out of store, as much of the information necessary for costing records is derived from this source.

The raw material used is so diverse that no stereotyped forms can be laid down as being applicable to all cases. The following principles, however, adjusted to suit particular requirements, are generally observed :—

A capable store-keeper is placed in charge of the stores and no other person is allowed to take in, or issue, stores. All goods on entering the works should be checked against the copy of the order, and the delivery note, and entered in the **Goods Inwards Book.** Bins, lockers, racks or other suitable receptacles are provided for the stores. A card, or label, is attached to each bin, similar in form to that shown on p. 429. Particulars of all goods received into, or withdrawn from, store are entered on these cards. The *values* of the goods should not be stated on the cards, nor on any of the Storekeeper's records; weights, or quantities, only should be shown. At stated periods, the cards are balanced and agreed with the **Stores Ledger,** described hereafter. When the cards show that stocks are running low, the store-keeper sends a requisition to the buying department for fresh supplies. Full particulars of these requisitions are entered by the store-keeper in a **Stores Purchases Book,** ruled with columns for entering the quantity, weight, or measure, price, date of receipt, and other particulars of all goods purchased for store. In all cases, goods must only be issued from store in exchange for a properly filled up **Requisition Form,** similar to that shown on p. 429, signed by the foreman requiring the goods. If any stores requisitioned remain over after the job is completed, they must be entered on a *credit slip*, similar in form to the requisition slip, and returned to the store-keeper, who will treat them in his records as an entirely fresh receipt of stores. All goods so issued must be recorded in a **Stores Issued Book,** a ruling of which is shown on p. 430; and details of stores received and issued are finally collected in the **Stores Ledger,** see p. 431. The Stores Ledger should be posted by the counting-house

staff and *not* by the store-keeper. The necessary information is obtained from the store-keeper's books, the requisition and credit slips, invoices, etc., the object of the book being to show the quantity of any given article in store. The balances in this ledger should agree with the bin-cards described above. A Ledger Account is opened for each article of importance, "omnibus" accounts serving for the smaller items. The opening item in each account is the stock of the particular article at the close of the last trading period. In addition to providing a useful check on the store-keeper, the Stores Ledger saves much time and trouble at stock-taking periods, and simplifies the work of the ordering department.

The Card Index system is growing in popularity as a rival to the older form of Stores Ledger.

It is obvious that in addition to book-keeping skill, working knowledge of the technical details of the particular manufacturing business is essential in order to devise an efficient costing system. Details, of course, vary greatly, but the main **Elements of Cost** are the same in all businesses, and divide themselves into :—

(*a*) Items directly related to the articles manufactured, such as materials and labour. These *direct* expenses are called **Prime Cost,** or **Flat Cost.**

(*b*) Expenses which cannot be directly allocated to any particular article of manufacture, or job, such as Power, Rent, Rates, Office Salaries, Bad Debts and the like. These *indirect* expenses are called **Oncost, Overhead,** or **Fixed Expenses.** The combined totals of (*a*) and (*b*) represent **Gross Cost, or Cost of Production.***

Every costing system, then, must deal with (1) Labour, (2) Materials, (3) Oncost expenses. Labour and Materials will vary with the turnover, but Oncost expenses will usually remain more or less stable.

Labour.—Wages may be paid (*a*) on a daily or hourly basis, *i.e.* at a fixed rate per day or hour, (*b*) at a "piece-

* The term "Cost of Production" is frequently used to represent the cost of manufacture alone, excluding Selling and Distribution Expenses; in such cases, Gross Cost includes the latter and is thus not the same as Cost of Production. There is unfortunately a lack of uniformity in costing nomenclature.

work" rate, *i.e.* a definite price is fixed per job or process, or (*c*) on the "premium" or "bonus" system, under which a percentage increase is paid above the standard rate in respect of output exceeding the standard quantity. The men are booked into the works by a time-keeper, or "clock" themselves in by a time-recording machine. Each workman is supplied with a daily or weekly time sheet similar in form to that shown on p. 428. These sheets are filled in by the men themselves, and are subsequently checked either with the time-keeper's records or those provided by the time-recording machine. As it would be inconvenient to post each time sheet individually the particulars they contain are grouped and analysed in an **Abstract of Wages,** whence they are posted either (*a*) to the particular job or contract to which they relate, or (*b*) to Oncost Charges, Capital Expenditure, or similar accounts, if they cannot be charged direct to any job. A ruling of an Abstract of Wages dealing with Capital Expenditure is given on p. 430. The abstract of wages for items chargeable direct to particular jobs is similar in form but contains more columns, the number of the particular job or process being entered in the left-hand column. All wages are posted from the **Abstract of Wages,** or from Wages Analysis Sheets, to (*a*) the cost account in the Cost Ledger of the particular job or process concerned, or (*b*) to the Plant and Machinery Register, either as a whole, or to individual machines, or (*c*) to the Loose Tools Account as representing the cost of making or repairing loose tools.

Materials.—The student will realise that the second item of prime cost cannot be charged out with the same facility as direct labour. It has already been explained that the first essential in this connection is the installation of an accurate system of recording the receipt and issue of materials from store. All goods required in the workshops must be withdrawn from store by means of the authorised requisition forms as shown on p. 429. The price at which they are withdrawn should be that shown in the Stores Ledger, and will consist of cost price plus carriage inwards calculated at the nearest workable fraction per unit.* In some businesses, the current market price is employed for charging out stores; in

* Many manufacturers deal with Invoice price only in the Stores Ledger. This practice certainly avoids the delay in calculating and apportioning carriage.

others average prices are adopted, calculated on bases varying with the business in point. Each of these methods has its advocates. It is unnecessary in this place to enter into their relative merits. The requisition forms should be summarised weekly in the **Materials Abstract,** a specimen of which is given on p. 432. The weekly totals shown in the Abstract must be posted in the Cost Ledger to the job or item of expenditure to which they relate. All materials returned to store should be entered in the Abstract in red ink, and deducted from the item to which they relate. In many cases it is desirable to post to the Cost Ledger in as much detail as is reasonably possible, this book being useful for future reference. Goods purchased specially for any particular job or contract can be charged direct from the Purchases Book, in which a column for " Direct Purchases " (No. of job; amount; Cost Ledger folio, etc.) should be provided. In similar manner direct expenses may be posted from the Cash Book as " memoranda."

The **Cost Ledger** is the place of assembly for the various components of the cost of every job, series of articles, or other unit, and separate accounts must be opened for every operation the cost of which it is desired to ascertain. A form of Cost Ledger is given on p. 432. The information necessary for posting this Ledger is derived from the Abstract of Wages, Materials Abstract, Purchases Book, and Cash Book. When all accounts in the Cost Ledger have been written up to date, so far as materials and labour are concerned, there still remains the final element required to arrive at the gross cost or cost of production, namely oncost expenses.

Oncost (Overhead) Expenses.—This term embraces all expenditure essential to the proper upkeep of the factory, and includes such indirect expenses as establishment, administration, distribution, store-keepers' and time-keepers' wages, and similar charges, which form an integral part of the cost of production, but which, because they are common to all, cannot be earmarked to any particular article or contract. Clearly, oncost expenses must be based on past experience; that is to say, the oncost figure for any given year must be based on the total oncost expenses of the previous year, or on the average for a selected period. The figures necessary for the compilation of the oncost total will be found in the Trading and Profit and Loss Accounts.

Having arrived at the necessary figure, it is clear that it can only be charged out by means of apportionment over the output upon some equitable basis. It is not always easy to determine this basis. The peculiar characteristics of the undertaking must be taken into account. If the standard unit of production is per ton, per barrel, per hundred or per thousand, the question of apportionment presents little difficulty, but where articles of diverse nature are manufactured, the question of apportionment is more complex.

Oncost is usually divided into (*a*) shop, (*b*) office or administration, expenses. The former includes the wages of all men, *e. g.* foreman, furnace and boilermen, storekeepers, etc., whose wages cannot be charged directly to any particular job. It also includes the cost of power, lighting, heating, repairs, depreciation, rent and rates of factory, and similar charges. The latter class (*b*) covers office and administration expenses, such as office, showroom and warehouse rent, rates and taxes; insurance; lighting; travellers' salaries and commission; office salaries and expenses; carriage outwards; packing, advertising, etc. It is often expedient to keep separate the expense of selling and distributing the goods so that the cost of each can be ascertained and comparisons drawn from period to period.

It is becoming increasingly popular to designate "oncost expenses" as "Establishment Expense," employing the term "oncost" to indicate the charge made therefor in the cost records. There is much to be said for this differentiation, since the allocation in the cost records *precedes* the ascertainment of the actual expenditure in respect of the constituent items, the aim of the Oncost Rate being to apportion equitably over the contracts, products, etc., such charges as cannot be analysed direct to any of them, absorbing the *total* charge. Such rate is necessarily an approximation and on the closeness of the approximation to the facts depends the accuracy and value of the final results.

Shop Oncost is usually apportioned as a fixed percentage on (*a*) Cost of Materials, or (*b*) Cost of Labour (time or cost); or (*c*) (*a*) and (*b*) combined; or (*d*) a fixed rate per hour worked; or (*e*) a fixed rate per machine hour worked; or (*f*) a fixed sum per unit of production. In the majority of cases, the most equitable basis is a fixed percentage upon the cost of the direct labour included in

the prime cost, since, in normal times, this is a more constant factor than the cost of materials. The percentage charged in the current period will represent the ratio between the total oncost expenses and the total productive wages paid in the previous period, after making adjustments for any known variations in the expenses or wages which affect the current period, but did not affect the previous period. The "hourly rate" (*d*) is arrived at by ascertaining the ratio between the total oncost expenses, and the total number of hours worked apportioned over the various jobs, according to the time occupied on them. The "machine rate" (*e*) is found by taking the first cost of the machine, less any residual value, adding the estimated cost of maintenance and the rental value of the space occupied, and dividing this total by the estimated number of working hours embraced in the life of the machine. This calculation gives the hourly rate chargeable to each article according to the time the machine was used in its production. As already stated, the fixed percentage—*e. g.* 50 per cent.—on direct wages added to prime cost is, in many cases, the most equitable, though possibly not the most scientific, basis to adopt. Each case must, as already emphasised, be dealt with on its own merits.

Office Oncost.—In some cases, the somewhat rough and ready method is adopted of charging out administration oncost as a fixed percentage upon works oncost. In other cases, the various items composing the total oncost are dealt with separately on their merits, as is explained below. The total office oncost to be charged out is ascertained from the Trading and Profit and Loss Accounts. Frequently, these accounts are specially drafted under the headings required for costing purposes, such as "Direct Wages," "Direct Purchases," "Indirect Wages," "Office Charges," "Administration Charges," and so on. This practice facilitates costing operations considerably. When the total office oncost has been ascertained, it is usually divided amongst the various departments upon the basis of turnover; or floor, or cubic space occupied; or average power consumed, or some other equitable basis. Each department then allocates its proportion of the whole, over the articles manufactured, upon the basis of the time occupied, or whatever other method of apportionment has been adopted.

As indicated above, certain items are sometimes treated on special lines. For example, rent, lighting, heating, cleaning, superintendence, insurance, depreciation and similar charges, may be apportioned on the basis of horse-power hours, electric current used (if separate meters are installed), cost of labour and material, or some similar basis applicable to the circumstances. Rent and Rates may be apportioned according to the estimated value of the space occupied by the various shops or departments; salaries upon the previous year's output; cost of power upon the horse-power consumed; lighting upon the number of points in use adjusted for varying wattages of the points; depreciation upon the approximate amount of capital involved, and so forth. Other similar illustrations could be given, but enough has been said to indicate the variety of the methods employed.

Having briefly dealt above with the main principles upon which costing is based, we arrive at the following table of cost of any given job or series of articles :—

	£	*s.*	*d.*
Direct Wages	—	—	—
Materials	—	—	—
Direct Expenses	—	—	—
Prime or Flat Cost	—	—	—
Works oncost (say 50% on wages). . .	—	—	—
Works Cost	—	—	—
Office oncost (say 15% on works cost) . .	—	—	—
Cost of Production	—	—	—
Profit	—	—	—
Selling Price	—	—	—

WEEKLY TIME SHEET

Time Sheet for Week Ending .... 19 .

Workman's Name ....

„ Number .... Rate per hour.........

„ Occupation............

Days.	Particulars of Work done.	Customer's Name.	Job No.	Hours.		Total Time.
				Time.	Over-time.	
Friday . .						
Saturday .						
Monday .						
Tuesday .						
Wednesday						
Thursday .						
		Totals . .				

		£ s. d.
Foreman's Signature.	Amount due .... hours at	
	*Deductions	
....	Amount payable ....£	

* These will be clearly stated under the various headings, State Insurances, Fines, Pension Fund, etc.

BIN OR LOCKER CARD

LIMIT { MAXIMUM ....
MINIMUM ....

No. OF BIN ....   NATURE OF GOODS ....

	Stock Received.		Given out on Requisition.			Balance on Hand.
Date.	From whom.	Quantity or Weight.	Date.	Required for.	Quantity or Weight.	Quantity or Weight.

(Additional columns may be employed to record Stores held for special purposes.)

REQUISITION FORM

Stores Requisition

No. ....
Goods required for ....
(Job or Contract No.)

Date 19

Counterfoil.	Particulars.	Quantity.	Weight.				Price per Unit.	Amount.			Reference Folio.
			tons.	cwts.	qrs.	lbs.					
								£	s.	d.	

Foreman's Signature ....

ABSTRACT OF WAGES

Capital Expenditure, Repairs, etc., Week ending, ... 19 .

Order No. or Details.	Pattern-making.	Core-making.	Moulding.	Machine Shop.	Fitting Shop.	Smith-work.	Sundries.	Cost Ledger Folio.	Total.		
									£	s.	d.
Works Order 1674 ...											
Pattern Shop Tools ...											
Foundry Plant											
Machine Shop Tools...											
No. 40 Hydraulic Press											
No. 70 Capstan Lathe											
Etc.											

STORES ISSUED BOOK

Date.	No. of Requisition.	To whom Issued.	Particulars.	Quantity.	Weight.				Price.	Amount.			S.L. Folio.
					tons.	cwts.	qrs.	lbs.		£	s.	d.	

STORES LEDGER
(Left-hand page)

Nature of goods ....
No. of Rack ....

Received into Stock.

Date.	Order No.	Folio.	By whom Supplied.	No. of Invoice or Credit Slip.	Quantity.	Weight.				Price per Unit.	Amount.			
						tons.	cwts.	qrs.	lbs.		£	s.	d.	

STORES LEDGER
(Right-hand page)

Maximum Stock ....
Minimum Stock ....

Date.	Requisition No.	Folio.	To whom Issued	Quantity.	Weight.				Price per Unit.	Amount.			Balance on Hand (Quantity or Weight).
					tons.	cwts.	qrs.	lbs.		£	s.	d.	

(Additional columns may be employed to record Stores held for special purposes.)

MATERIALS ABSTRACT

No. of Job.					No. of Job.					No. of Job.					Inside Items.												Summary.				
															Plant.				Loose Tools.				Other Items.								
No. of Requisition.	Particulars.	Amount.			No. of Requisition.	Particulars.	Amount.			No. of Requisition.	Particulars.	Amount.			No. of Requisition.	Amount.			No. of Requisition.	Amount.			No. of Requisition.	Amount.			No. of Job.	Amount.			Cost Book Folio.
		£	s.	d.			£	s.	d.			£	s.	d.		£	s.	d.		£	s.	d.		£	s.	d.		£	s.	d.	

COST LEDGER

Name of Customer ....

Address .... Terms of Payment .... No. of Contract .... Date Completed ....

Date.	Details.	Wages.						Materials from Stores.						Direct Purchases.					Direct Expenses.					Oncost Expenses.				Total Cost.		
		Description of Work.	Hours.	Rate.	Amount.			Requisition Number.	Details.	Stores Folio.	Amount.			P.J. fol.	Details.	Amount.			C.B. fol.	Details.	Amount.			Fol.	Amount.					
					£	s.	d.				£	s.	d.			£	s.	d.			£	s.	d.		£	s.	d.	£	s.	d.

SPECIMEN COST SHEETS

Foundry Cost Account for Month ending ....

	T. c. q.	£ *s. d.*	£ *s. d.*		*T. c. q.*	£ *s. d.*	£ *s. d*
To Materials used:				By Castings made...			
Pig iron				,, Scrap, wasters, runners, risers, etc.			
Scrap iron							
Furnace coke ...				,, Loss in melting			
Coal							
,, Sundry stores, *i.e.* sand, coal dust, core from chaplets, pipe nails, etc., etc.							
,, Wages:							
Moulders							
Coremakers ...							
Fettlers							
Furnacemen ...							
Labourers							
Foreman							
,, Proportion of fixed overhead charges...........							
,, Profit							

BREWERY

COST SHEET

Brewing No. .... Quality .... Date ....

Quantity.	Materials used.	Stores Book Folio.	Price.		Notes.
			£ *s. d.*	£ *s. d.*	
	Malt				
	British				
	Foreign...............				*Barrels*
	Sugar				Brewed ....
	Details				Racked ....
	Hops				
	Details				
	Preservatives				*Productions*
	Details				Barrels at a cost
	Other Materials				of per barrel.
	Details				
	Duty				
	Less Grains sold				
	Spent Hops sold				
	Sundries sold ...				
			£		

[NOTE.—After arriving at the cost of production, as shown in this section of the account, wages, water, fuel, and overhead charges would be added to complete the costing.]

COLLIERY

COST SHEET

Week ending ....

Tons raised .... Days occupied ....

	Cost per ton.	
	£ s. d.	£ s. d.
I. *Underground Wages:*		
Getting and loading coal		
Transport		
Deputies		
Checking and Ripping		
Roads and Wayleaves		
New roads		
Faults		
Sundries		
Cost per ton	£	
II. *Surface Wages:*		
Labourers		
Joiners		
Fitters, Smiths		
Pumping Station		
Winding and Ventilation		
Weigh-house		
Sundries		
Cost per ton	£	
III. *Working Expenses:*		
Timber (prop wood)		
Stable expenses		
Stores, underground		
Stores, surface		
Pit rails		
Repairs and renewals		
Ropes and chains		
Bricks, lime, etc.		
Coal used		
Rent and Rates (surface)		
Depreciation		
Surface damage		
Royalties, Wayleaves, etc.		
Sundries		
Cost per ton	£	
IV. *Management and Administrative Charges:*		
Salaries and Commission		
Office and Travelling Expenses		
Bad debts and Discounts		
Sundries		
Cost per ton	£	
Total cost per ton		
Average price realized per ton, £	£	

[NOTE.—Columns are sometimes provided for the insertion under each heading of the total figures to date for such portion of the financial year as may have elapsed prior to the current Cost Sheet. Columns for the purpose of comparison with corresponding periods are also sometimes useful.]

EXERCISES.

[The material for answering these questions will be found in the preceding pages.]

1. Outline briefly, with sketches of books, any system of entering and checking the stores used in a manufacturing business with which you are familiar, and of which you approve.—*Chartered Accountants.*

2. Clients of yours suspect a leakage in their stock, and request you to advise them as to the best method of recording the charge to, and issue from, stores of goods purchased. Select one of the undermentioned businesses, and submit a short report on the system you advocate, together with specimen forms: (*a*) Retail Store (Three departments); (*b*) Engineer; (*c*) Hardware Merchant; (*d*) Tobacco Manufacturer.—*Chartered Accountants.*

3. Explain briefly, with examples, the system of stock and cost accounts which you would introduce for use in the office of a firm, whose chief articles of manufacture consist of small machine parts. What is the first step you would take in introducing the system you recommend?—*Royal Society of Arts.*

4. Briefly describe an efficient system of recording the receipt and issue of goods from store to departments in any manufacturing business with which you are familiar. Illustrate your answer with a sketch of a Stores Ledger you would recommend, and make three specimen entries therein.—*Chartered Accountants.*

5. Select an article in common use, describe the materials, labour, and expenses which enter into the cost of producing it, and frame a Cost Sheet in a form calculated to present details of the cost of production in the most useful form to the manufacturer.—*Royal Society of Arts.*

6. Select a type of business, and describe an efficient system of recording the receipt and issue of goods from store, and illustrate your answer with a sketch of a "Stores Received and Issued Book."—*Royal Society of Arts.*

Royalty Accounts

The term "Royalty," as employed in commerce, expresses a money payment, in the nature of a rent, made for the right of user in connection with certain property, such, for example, as patent or mineral rights. The "royalties" payable by the publishers of a book or a play, or a musical composition, to the owner of the copyright furnish further instances, as also do the payments made by the vocalists who sing copyright songs, or by the producers of copyright plays, to the owners of the copyright of the songs or plays.

Except in the case of royalties paid in respect of mineral rights, royalty payments offer no unusual book-keeping features and need not be dealt with further;

they are usually either business expenses (in the books of the payer of them) or profits (in the books of the recipient). Mineral royalties are dealt with below.

Mineral Royalties.—Many forms of royalty are calculated on the basis of the payment of a certain sum of money in respect of each occasion upon which the property involved is used, *e. g.* each instance in which patent rights are made use of, or each copy of a book or wireless component, gramophone record or piece of music is sold. Mineral royalties are almost invariably based upon the number of units of mineral extracted, a certain sum of money being payable in respect of each unit, *e. g.* a "royalty" of 6*d*. per ton on every ton of clay won from a given specified area, although in the case of mineral royalties certain additional stipulations are usually inserted in every agreement in order that an equitable arrangement between the parties may be arrived at.

The owner of a claypit, when leasing the right to dig the clay, will charge the lessee with a royalty of so many pence per ton of clay extracted.

If the agreement between the landlord and the lessee were to go no further than the fixing of a royalty to be paid upon each ton of clay extracted, the landlord would be entirely in the lessee's hands as regards the amount of the royalties payable; the latter could work on a restricted output or refrain from working any clay at all unless it suited his convenience, in which case the landlord would receive little or nothing in the way of royalties.

A landlord naturally desires to be able, in granting a lease, to count at least upon a moderate and certain regular income, and in order to meet his requirements in this respect the custom exists of naming a round sum of money in the lease as a **minimum rent,*** *i. e.* a specified rent, which is payable whether the working calculated on a basis of so much per ton equals the "minimum" mentioned or not. Even if the clay area remains unworked the minimum rent is nevertheless payable.

In years of restricted output the amount by which the minimum rent actually paid under the lease exceeds the agreed royalty on the output (which latter would be payable if no minimum rent were stated in the lease) is commonly known as **short workings** (or **shorts**).

* Other local terms to express the same meaning are: Dead Rent, Annual Rent, Head Rent, Sleeping Rent, Fixed Rent, Certain Rent, etc.

This name is applied to the deficiency of tonnage, as well as to the monetary expression of the deficiency in terms of the royalty payable.

It may happen during the first few years of working that the output is below the normal annual rate ultimately expected to be reached, while in later years output increases and ultimately rises above the point at which the minimum rent merges into a royalty on the output. In order to alleviate the hardship which might otherwise arise as regards the lessee, through the effect of the short working in early years, the lease will probably contain a clause to provide for what is known as the "recoupment of short workings." Such a provision usually stipulates that any short workings occurring in earlier years may be offset against the larger outputs of later years, subject to the proviso that a sum at least equal to the minimum rent must be paid in every year of the lease's term. Briefly put, the owner receives either the minimum rent or the agreed royalties, whichever is the greater. The right to recoup short workings may continue during the first few years only, short workings occurring in later years being irrecoverable.

The practical working of the various provisions set forth above may be made more clear by the use of a concrete example. A brickworks might be granted a lease of a clay-pit at a royalty of 6*d.* per ton with a minimum rent of £200 per annum, and power to recoup short workings. The effect of this would be that if less than 8,000 tons were "won" in a given year the minimum rent of £200 a year would be payable, but that if 8,000 tons or more were worked in a given year the royalty at the rate of 6*d.* per ton upon the output would be payable.

We will take the actual outputs for the three years following the granting of the lease mentioned above as under—

First year	3,000 tons
Second Year	10,000 "
Third year	20,000 "

The royalties payable will then be as set forth below.

First year.—The minimum rent of £200 is the equivalent (at a royalty of 6*d.* per ton) of an output of 8,000 tons. In this year only 3,000 tons have been worked, the £200 minimum rent is therefore payable, and the lessee may (as a memorandum) carry forward 5,000 tons

of short workings for subsequent recoupment, if possible, out of the results of later years.

Second year.—If there had been no provision in the lease granting the recoupment of short workings royalty would have become payable at the rate of 6*d.* per ton on the whole output of 10,000 tons; as, however, there are in existence some short workings which the lessee is permitted to recoup, they can be made use of subject to the proviso that not less than the minimum rent of £200 per annum shall be paid. By claiming the benefit of 2,000 tons short workings out of the 5,000 tons short worked in the first year, the royalty due can be reduced to the royalty on 10,000 tons less 2,000 tons, *i. e.* on 8,000 tons, which, at the rate of 6*d.* per ton, is £200. This £200 is, therefore, paid to the landlord, and the balance of short workings, available for use in future years, is reduced to 3,000 tons.

Third Year.—Similarly, if there had been no provision in the lease as regards short workings, royalty would have become payable on the whole output of 20,000 tons; there are, however, 3,000 tons of short workings (see above) remaining available for recoupment. By applying these in reduction of the 20,000 tons of output for royalty purposes the royalty actually payable is reduced to that due upon 17,000 tons, viz. £425.

The principles upon which royalties and short workings are to be recorded in the books of the lessee are as follows—

(*a*) Since the Working and Profit and Loss Account records only the product of the sale of the output for the period, the debit appearing in this account in respect of royalties must represent the royalty on *actual output* for the period, whether this is above or below the minimum rent.

(*b*) If, in any given year, the royalty based on the output is *less* than the minimum rent actually paid, the deficiency (*i. e.* the short workings) should be debited to an asset account entitled Short Workings Account, which account should be carried forward to future years as an asset account as long as there is a reasonable chance of the output of later years being sufficiently high to recoup

the balance remaining upon the account. In cases where the year's royalty on the output is less than the minimum rent, it is the *royalty on output* which is, as set forth in paragraph A. to be debited to the Profit and Loss Account, the short workings being ranked as an asset for the time being.

(*c*) If, in any given year, the royalty due upon the output *exceeds* the minimum rent, it is still the royalty on the output which is to be debited in the Profit and Loss Account, notwithstanding that by the application of previous years' short workings the actual payment to the landlord may be reduced below this sum.

(*d*) When the accumulated short workings amount to such a sum that, by reason of the near approach of the time limit for recoupment as well as in view of the low output, there is no reasonable hope of their ever being recouped; any balance on this account must be written off to the Profit and Loss Account, and no further short workings should be treated as an asset unless there is a reasonable prospect of their subsequent recoupment.

The holding up of irrecoverable short workings as an asset presents, of course, one method by which the Balance Sheet and Profit and Loss Account of a business may be made to misrepresent the actual condition of affairs, and, to avoid misrepresentation, the matter must always be dealt with upon as conservative a basis as possible.

The entries necessary to record royalties and short workings are as under—

Case I.—*If the royalty payable on the output equals or exceeds in any given year the minimum rent stated in the lease.*

(*a*) *Debit* the Royalties Account (an expense account subsequently transferable to the debit of the Profit and Loss, or Working, Account) with the royalties payable, and (*b*) *Credit* the Personal Account of the landlord with the like sum.

The landlord's account is closed by debiting it with (*c*) the cash paid to him, and (*d*) the previous year's short workings (if any) reclaimed from him (see below).

Case II.—*If the minimum rent stated in the lease, and subsequently paid, exceeds the royalty at the agreed rate worked out on the actual output for the year* (*i. e.* where the minimum rent clause comes into operation to prevent the landlord suffering from a bad year's output).

(*a*) *Debit* the Royalties Account with the royalty due at the agreed rate worked out on the actual output.

(*b*) *Debit* the Short Workings Account with any short workings.

(*c*) *Credit* the landlord's Personal Account with the sum of the foregoing debits, *i. e.* with the minimum rent, and debit his account with any cash payment made to him.

An alternative, and shorter, method (not illustrated) is to merge the Shortworkings Account with the Royalties Account, bringing down the balance representing recoverable shortworkings as a debit balance on the Royalties Account.

The Short Workings Account may be regarded as an asset account until the close of the period prescribed by the lease during which the recoupment of short workings is permissible, provided, as has already been stated, that there is a reasonable probability of the output being sufficiently large to permit of such recoupment.

Any short workings, the eventual recoupment of which cannot be reasonably expected, and any short workings occurring after the prescribed period for recoupment has expired, must at once be debited to the Profit and Loss Account.

An example, illustrating the payment of Royalties and the recoupment of short workings, is appended.

The Blanktown Brickworks, Ltd., took from the Earl of Landore a lease of a clay-pit for a period of twenty years, from January 1, 19—, upon the terms of a royalty of 6*d.* per ton upon the output with a minimum rent of £200 per annum, and with a power to recoup "short workings" over the first four years of the lease.

The annual outputs for the five years following the granting of the lease were as follows—

First Year . . .	5,000 tons.
Second Year . . .	8,000 „
Third Year . . .	10,000 „
Fourth Year . . .	10,000 „
Fifth Year . . .	12,000 „

Show the Royalties, " Short Workings," and Landlord's Ledger accounts as they would appear in the books of the Colliery Company. Ignore all questions of Income Tax.

Dr. ROYALTIES ACCOUNT **Cr.**

			£	*s.*	*d.*				£	*s.*	*d.*
19— Dec. 31	To the Earl of Landore, royalty upon the output for year (5,000 tons)	J. 17	125	0	0	19— Dec. 31	By Transfer to Profit and Loss Account	J. 18	125	0	0
		£	125	0	0			£	125	0	0

			£	*s.*	*d.*				£	*s.*	*d.*
19— Dec. 31	To the Earl of Landore, royalty upon the output for year (8,000 tons)	J. 36	200	0	0	19— Dec. 31	By Transfer to Profit and Loss Account	J. 39	200	0	0
		£	200	0	0			£	200	0	0

			£	*s.*	*d.*				£	*s.*	*d.*
19— Dec. 31	To the Earl of Landore, royalty upon the output for year (10,000 tons)	J. 42	250	0	0	19— Dec. 31	By Transfer to Profit and Loss Account	J. 44	250	0	0
		£	250	0	0			£	250	0	0

			£	*s.*	*d.*				£	*s.*	*d.*
19— Dec. 31	To the Earl of Landore, royalty upon the output for year (10,000 tons)	J. 65	250	0	0	19— Dec. 31	By Transfer to Profit and Loss Account	J. 68	250	0	0
		£	250	0	0			£	250	0	0

			£	s.	d.				£	s.	d.
19— Dec. 31	To the Earl of Landore, royalty upon the output for year (12,000 tons)	J. 90	300	0	0	19— Dec. 31	By Transfer to Profit and Loss Account	J. 90	300	0	0
		£	300	0	0			£	300	0	0

Dr. **EARL OF LANDORE (Landlord's Account)** Cr.

			£	s.	d.				£	s.	d.
19— Dec. 31	To Cash	49	200	0	0	19— Dec. 31	By Royalty ...	J. 17	125	0	0
						" 31	" Short Workings.........	J. 17	75	0	0
		£	200	0	0			£	200	0	0

			£	s.	d.				£	s.	d.
19— Dec. 31	To Cash	104	200	0	0	19— Dec. 31	By Royalty ...	J. 36	200	0	0
		£	200	0	0			£	200	0	0

			£	s.	d.				£	s.	d.
19— Dec. 31	To Short Workings recouped	J. 42	50	0	0	19— Dec. 31	By Royalty ...	J. 42	250	0	0
" 31	" Cash............	157	200	0	0						
		£	250	0	0			£	250	0	0

			£	s.	d.				£	s.	d.
19— Dec. 31	To Short Workings recouped	J. 65	25	0	0	19— Dec. 31	By Royalty ...	J. 65	250	0	0
" 31	" Cash............	192	225	0	0						
		£	250	0	0			£	250	0	0

			£	s.	d.				£	s.	d.
19— Dec. 31	To Cash	314	300	0	0	19— Dec. 31	By Royalty ...	J. 90	300	0	0
		£	300	0	0			£	300	0	0

SHORT WORKINGS ACCOUNT

			£	s.	d.				£	s.	d.
19— Dec. 31	To the Earl of Landore (Short Workings 1st year)	J.17	75	0	0	19— Dec.31	By Balance carried down	√	75	0	0
		£	75	0	0			£	75	0	0

			£	s.	d.				£	s.	d.
19— Jan. 1	To Balance brought down	√	75	0	0	19— Dec.31	By Transfer to the Earl of Landore (Short Workings recouped)	J.42	50	0	0
						" 31	" Balance carried down ...	√	25	0	0
		£	75	0	0			£	75	0	0

			£	s.	d.				£	s.	d.
19— Jan. 1	To Balance brought down	√	25	0	0	19— Dec.31	By the Earl of Landore (Short Workings recouped)	J.65	25	0	0
		£	25	0	0			£	25	0	0

The foregoing illustration shows the entries that would appear in the books of the lessee. Very similar considerations would of course affect the lessor, who might consider it prudent not to take credit in the profit and loss account for any amount by which the minimum rent exceeded the royalty on actual output. In this case he would credit the difference to a Shortworkings Account or special Reserve Account, or simply carry forward the amount as a credit balance on Royalties Account.

The Double Account System

This is a statutory method of presenting the published accounts of certain types of public utility undertakings. Originally it applied to railways and undertakings supplying electric power, gas and water. The precise form in which the accounts of each of these types of undertaking are (or were) presented is (or was) laid down in a special Act. At the time of writing, however, the railways and electricity companies have already been nationalised and the gas companies are about to follow

suit, so that from the point of view of the student of book-keeping the subject has lost most of its interest and importance. Accordingly, the description of this method is now limited to the following very brief account.

A preliminary word of warning is advisable—the student must not confuse the term "Double Account System" with "Double Entry Book-keeping." The latter is the method of systematic book-keeping to the explanation of which the greater part of this book is devoted: the former, as mentioned above, is a special method of publication of final accounts of a special type of undertaking. It should be emphasised that, though the details of the book-keeping may be in some respects modified for special reasons, nevertheless the system employs the ordinary double entry principles with which the student should by now have become familiar.

The outstanding characteristic of all the types of undertaking which employs (or formerly employed) the double account system is very heavy initial capital expenditure. The outstanding characteristic of the system itself is that the accounts, so long as the undertaking continues, show the total cost of that capital expenditure, which is never depreciated or written down. For this purpose, the balance sheet is divided into two parts, one of which deals with capital receipts and payments only while the other deals with the current assets and liabilities. The first part is known as the Statement of Receipts and Expenditure on Capital Account: if the capital receipts (that is the share and loan capital) exceed the capital expenditure the difference, which represents "working capital," is carried to the second part, which is called the General Balance Sheet.

The Profit and Loss Account of the ordinary commercial undertaking is replaced by a series of accounts, serving the same purpose and setting out the revenue receipts and expenditure for the accounting year in great detail. The change is necessitated by the nature of the undertaking and involves no real difference of principle as compared with the accounts of the ordinary undertaking. The more important of these accounts, in the case of a railway, were called respectively "Receipts and Expenditure in respect of Railway Working," "Revenue Receipts and Expenditure in respect of the Whole Undertaking" and the "Proposed Appropriation of Net Revenue." These names practically explain themselves, subject to the

explanation that the "whole undertaking" includes a variety of activities apart from the transport of passengers and goods over the railway lines, including for instance road transport, steamboats, canals, docks and hotels.

Goodwill

Some reference has already been made to the subject of Goodwill in its relation to Partnership and Joint Stock Company accounts. There are, however, certain points connected with this important subject which have not been considered previously in this treatise, to which, therefore, some brief reference is needful.

Many definitions of Goodwill are available, but none of them is entirely satisfactory. It has been described by a learned judge as "the benefit arising from connection and reputation," or as "the probability that the old customers will resort to the old place." Under modern conditions the limits suggested by these definitions are too restricted. Based on the broad lines of practice, it may be claimed that the purchaser of a Goodwill acquires the right to represent himself as the successor to the business, and to enjoy every advantage attaching to the business, capable of transfer, which the former proprietor enjoyed. Thus, a Goodwill embraces the trade name, trade marks, designs, patents, etc., and the benefits of current contracts, agreements, leases, etc., and the advantage accruing from the location, reputation, and organisation of the business. Goodwill may not be a readily realisable asset, nevertheless it is a real and, in many cases, a very valuable type of property.

Goodwill is fully recognised as a transferable asset by the law, and agreements for its sale or conveyance are subject to *ad valorem* stamp duty.

The value of the Goodwill of a business is obviously dependent upon the nature of the undertaking, and upon the circumstances connected with it. By its very nature, the value of Goodwill fluctuates; increasing as the profits of the business increase, decreasing as they fall. For the purposes of sale the Goodwill of a business is usually estimated as being worth a given number of years' purchase of the annual profits which may be expected to be derived from its possession. Such future profits are usually estimated upon the basis of the average profits which have accrued during the last few

years' trading immediately prior to the date upon which the sale takes place, but after making adjustments for any known variations which must arise owing to the conditions and circumstances of the sale. The average of profits to be employed for the purposes of valuing a Goodwill should be based upon the results of a sufficient number of years to give a fair estimate of future results, and in arriving at such average any special profits or losses due to extraneous circumstances should be disregarded. The average of the previous three to five years' results is commonly employed in arriving at the value of Goodwill in ordinary commercial undertakings.

The number of years' purchase of these ascertained "average" profits to be taken in any given instance is naturally a matter which is subject to great variation according to circumstances. The Goodwill of a professional business, in the successful conduct of which the personality of the previous owner is of paramount importance, and which can only be transferred to a new owner with the probability of considerable loss of *clientèle*, may, in a given instance, only be worth from one to three years' purchase of the average profits previously derived from its possession; on the other hand, the Goodwill of a trading business showing average profits of a similar amount may be worth a much larger proportionate sum. This difference in value would be due to the less exclusively "personal" nature of the latter business as compared with the former. In fact, in many commercial undertakings the personal factor is practically non-existent in connection with the Goodwill, which may be largely a question of locality or of reputation for the quality of merchandise sold. In an ordinary case the Goodwill of a professional business may be taken to be worth from one to three years' purchase of the average past profits, and the value of the Goodwill of a trading business will ordinarily be worth from two to five years' purchase of similar average past profits. In periods of great demand for businesses of any given kind, competition will naturally increase the number of years' purchase obtainable. If a share only of the Goodwill is being disposed of, in cases where the previous partners, or some of them, continue to be associated with the undertaking, a greater number of years' purchase of the average profits will in many cases be demanded by the vendors.

Again, where the average of the results of past years is

based upon a series of descending profits, *i. e.* where the profits have in the past been steadily on the down grade, the Goodwill will obviously be worth less than where exactly the same average is shown by a series of ascending profits, *i. e.* where the business shows a sequence of profits which are on the up-grade, each year showing a better result than its predecessor.

The personality of the intending purchaser of a Goodwill is an important factor in relation to the price to be paid for its possession; the approximate number of years' purchase stated above, viz. one to three years in the case of a professional business and two to five years for a trading business, will usually apply when the intending purchaser is a private person purchasing on his own account. If on the other hand, the Goodwill of a trading business is to be sold to a Limited Company formed for the special purpose of acquiring it, the purchase price will frequently be considerably more than if it were being disposed of to a sole trader. This enhanced price arises out of the interposition of vendors' or promoters' profits in the case of a Company, and is rendered possible by the fact that the shareholder with limited liability in a Joint Stock Company will usually be content with a smaller rate of interest per cent. per annum upon his money than would be required by a purchaser trading upon his own account with unlimited liability. A Joint Stock Company can usually be more heavily capitalised in a similar business than a private partnership, and yet be in a position to satisfy its shareholders in point of income. If at a subsequent date such a company fails to succeed, the loss of capital to the ordinary shareholders is, of course, correspondingly large. The ordinary shares of some companies are largely represented by the purchase price of the "Goodwill," and in view of the excessive prices which the constitution of a Joint Stock Company allows to be placed upon this asset, and of its worthlessness should the undertaking fail, the capitalist who cannot afford to lose the principal, represented by his investment, should studiously eschew the *ordinary* or *deferred* shares of those industrial companies where the amount paid for the Goodwill of the business forms the principal part of the purchase price.

An example of an alternative method of calculating Goodwill on the sale of a business is appended. This method has the advantage of simplicity, and is sufficiently

accurate in cases which are not complicated by extraneous factors.

Example: The Balance Sheet of a sole trader is as follows:—

	£	s.	d.		£	s.	d.
Capital	80,000	0	0	Tangible Assets	100,000	0	0
Creditors	20,000	0	0				
	£100,000	0	0		£100,000	0	0

A Limited Company is formed to acquire the business. The value of the Tangible Assets is agreed to be £90,000. The company will discharge the creditors. On the basis of past results, after making adjustments for profits which will not recur, and various other items which do not affect the company, it is found that the profits that can be expected amount to £18,000 per annum. Out of such profits, £5,000 will be required for Directors' fees, leaving £13,000 available for Reserves and Dividends.

Having regard to the class of business, and the risk of loss of capital, it is considered that shareholders will expect a return of 10 per cent. per annum on their shares, and that £3,000 a year should be set aside to Reserve. The shareholders should, on this basis, be willing to invest £100,000 in the business, since they would obtain on that sum the expected return of 10 per cent., in view of the estimated expectation of profits stated above.

Of the £100,000 subscribed, it is found that £6,000 is required for Preliminary Expenses and additional Working Capital. The company should, therefore, be willing to pay the balance of £94,000 for the business, *i. e.* the value of Goodwill is £24,000, arrived at as shown in the following outline of the opening Journal entry:—

		£	£
Sundry Assets	Dr.	90,000	
Goodwill	„	24,000	
To Creditors			20,000
„ Vendor			94,000

Upon the failure of a trading concern, its Goodwill obviously becomes valueless; and in like manner when the profits of an undertaking decrease, so the value placed upon its Goodwill should in theory diminish also. The question whether the purchase price paid by an undertaking for its Goodwill should be depreciated has been the

subject of much controversy among accountants, but in actual practice the original cost of the asset is frequently allowed to stand. In periods of depression, when the Goodwill has fallen in value, directors of companies usually object to throwing any additional burden upon the Profit and Loss Account in order to meet such fluctuations, and it is only in prosperous years, when profits are abundant and the Goodwill presumably of corresponding value, that any writing down of the asset is met with; in such years lump sums are sometimes written off Goodwill Account, from a laudable desire to reduce the profits available for distribution in order to conserve the financial resources of the company in view of possible times of stringency in future years. It is impracticable to attempt to record the fluctuating value of Goodwill, and its reduction below cost is a matter of financial prudence and experience rather than of obligation.

It would appear, even where known depreciation in the value of the Goodwill exists, that there is no legal obligation to reduce its book value prior to the payment of dividends (*Wilmer* v. *M'Namara*). The asset should be separately stated in the Balance Sheet *at cost*, or *at cost less amount written off*, and such statement is not intended to convey any guarantee that its present worth is represented by the amount at which it appears.

In any case, where a reduction of the book value of Goodwill has been decided upon the amounts written off are not in any sense charges against revenue, but should take the form of appropriations of profits, and should therefore appear in the Appropriation Section of the Profit and Loss Account.

Goodwill rarely appears in a Balance Sheet, unless it has been purchased by the private trader, partnership or company in question, or (in the case of a partnership) it has been written up on the admission of a new partner or represents a sum paid out on the retirement or death of an old partner.

Bankruptcy and "Deeds of Arrangement"

When the affairs of a trader or a partnership become financially involved, and further trading is impossible, it becomes necessary for the property of the concern to be realised and distributed *pro rata* among the creditors. A

trader who is unquestionably insolvent (taking that word in the sense that he is unable to pay his debts as they fall due) cannot continue business in this condition for any extended period of time, although by an adroit system of "financing" his liabilities an unscrupulous trader may postpone the final crisis.

Bankruptcy infers the winding up of a debtor's estate according to the manner prescribed by law,* the distribution of the proceeds of his estate *pro rata* among his creditors, and, ultimately, the freeing of the debtor, by operation of law, from any further claim in respect of the unsatisfied portion of his indebtedness to his creditors. There is a popular tendency to refer to all insolvent persons as *bankrupts*. A bankrupt is a person whose affairs have been brought before the Court, and who has been adjudged bankrupt by the Court under the bankruptcy laws. An *insolvent person* is one who is unable to pay his debts as they fall due. Many insolvent persons never reach the stage of bankruptcy.

A **Bankruptcy Petition** can be presented to a Bankruptcy Court either by a creditor (for £50 or over) or by the debtor himself. The petitioning creditor must prove an **Act of Bankruptcy,** *i. e.* an act, or default, of the debtor deemed by the Court to be evidence of insolvency (see p. 457). The petition is heard by a Registrar of the High Court of Justice, or of the County Court, if such be resorted to, and a **Receiving Order** can be made upon it. A Receiving Order does not deprive the debtor of his property but protects it, by placing it in the hands of an officer of the Court termed the **Official Receiver.** Upon a Receiving Order being made the Official Receiver to whom the case is assigned calls a **First meeting of creditors.** This meeting may resolve that the Court shall be applied to, to adjudge the debtor a bankrupt, or, on the other hand, the meeting may entertain a **Scheme of Composition** for the gradual liquidation of the debtor's indebtedness. Upon **Adjudication** of bankruptcy, the debtor becomes a **Bankrupt** and the ownership of all his property passes automatically from him to a **Trustee,** who is, in the first instance, the Official Receiver, and subsequently some person appointed by the creditors. Soon after adjudication, the bankrupt must attend a **Public Examination,** *i. e.* an examination

* *Bankruptcy Acts,* 1914 *and* 1926.

before the Court as to his affairs, and he may thereafter apply for his **Discharge.** An order of "discharge" is, as far as the bankrupt is concerned, the conclusion of his financial *débâcle;* it frees him from any further claims with reference to his debts, and permits him to start in business afresh with a clean sheet.

The Trustee as soon as possible after his appointment realises the debtor's estate, or so much of it as is capable of realisation. Out of the first funds available the **Preferential creditors,** *i.e.* certain creditors having priority for rates and taxes, wages and salaries, are paid in full, and the rest of the funds are then distributed equally among the creditors in proportion to their claims. If the funds realised are insufficient to pay the Preferential Creditors in full, they are paid *pro rata.* In such event, of course, the other creditors get nothing.

The creditors may, at their "first meeting," appoint some person approved by them (usually a professional accountant) to be the Trustee, or they may leave the matter in the hands of the Official Receiver, who will then act as Trustee; the creditors may at the same time appoint some of their number to act as a **Committee of Inspection.** This committee will hold periodical meetings and supervise the liquidation of the debtor's affairs.

A debtor, upon the making of a Receiving Order against him, must submit to the Official Receiver in charge of the case, in the prescribed form, a Summary of his position called a **Statement of Affairs**; and, if necessary, he may obtain professional assistance in compiling the Statement. Statements of Affairs are prepared not only in bankruptcy cases, but also in cases of the compulsory winding up of Joint Stock Companies by order of the Court (where, again, an official form is prescribed), and in almost all cases of financial embarrassment. The statement sets forth on the one side the debtor's property, ranged according to its nature, and valued not, as in a Balance Sheet, upon a basis of book figures or as the property of a going concern, but at realisation or "break-up" figures; on the other side of the statement the debtor's liabilities are set out. As has been previously indicated, a Statement of Affairs obviously differs greatly from a Balance Sheet prepared for a going concern; and in its preparation all fictitious or wholly unrealisable assets must be excluded.

No. 34.—STATEMENT OF AFFAIRS

(*Title*)

In the * High Court of Justice
In Bankruptcy
Re A. Debtor.

To the Debtor.—You are required to fill up carefully and accurately this Sheet, and the several Sheets A, B, C, D, E, F, G, H, I, J, and K (*a*) showing the state of your affairs on the day on which the Receiving Order was made against you, *viz.* the 1st day of January, 19—.

Such Sheets, when filled up, will constitute your Statement of Affairs, and must be verified by Oath or Declaration.

(*a*) Sheet "L" should be substituted for any one or more of such of the Sheets named as will have to be returned blank.

Gross Liabilities £	s.	d.	Liabilities (as stated and estimated by debtor).	£	s.	d.	Expected to rank. £	s.	d.
15,050	0	0	Unsecured Creditors, as per list (A)				15,050	0	0
500	0	0	Creditors fully secured, as per list	500	0	0			
			(B) Estimated value of securities	550	0	0			
			Surplus	50	0	0			
			Less amount thereof carried to Sheet C						
			Balance thereof to contra	50	0	0			
1,000	0	0	Creditors partly secured, as per list (C)	1,000	0	0			
			Less estimated value of securities	500	0	0	500	0	0
			Liabilities on bills discounted other than debtor's own acceptances for value, as per list (D), viz.—						

Assets (as stated and estimated by Debtor).	Estimated to produce. £	s.	d.
Property, as per list (H), viz.—			
(*a*) Cash at Bankers	0	5	6
(*b*) Cash in hand	1	0	0
(*c*) Cash deposited with Solicitor for costs of Petition			
(*d*) Stock in Trade (cost £)			
(*e*) Machinery			
(*f*) Trade fixtures, fittings, utensils, etc.			
(*g*) Farming stock			
(*h*) Growing crops and tenant right			
(*i*) Furniture	10	0	0
(*j*) Life Policies			
(*k*) Stocks and shares			
(*l*) Reversionary or other interests under wills			
(*m*) Other property, viz.— 50,000 fully paid £1 shares in the Ephemeral Gold Reduction Company, Ltd.	1,000	0	0
Total as per list (H)	1,011	5	6

£	s.	d.		£	s.	d.	£	s.	d.
			On Accommodation Bills, as drawer, acceptor, or indorser	1,000	0	0			
			On other bills, as drawer or indorser						
			£	1,000	0	0			
1,000	0	0	Of which it is expected will rank against the estate for dividend				1,000	0	0
			Contingent or other liabilities as per list (E) ....£						
			Of which it is expected will rank against the estate for dividend						
100	0	0	Creditors for rent, etc., recoverable by distress as per list (F)	100	0	0			
			Creditors for rates, taxes, wages, etc., payable in full, as per list (G)						
			Sheriff's charges payable under sec. 11 of the Bankruptcy Act, 1890, estimated at						
			Deducted contra ....£	100	0	0			
£17,650	0	0	£				16,550	0	0

	£	s.	d.	£	s.	d.
Book debts, as per list (I), viz.—						
Good				50	0	0
Doubtful	5,000	0	0			
Bad	4,000	0	0			
£	9,000	0	0			
Estimated to produce				1,000	0	0
Bills of Exchange or other similar securities, on hand, as per list (J) .... £						
Estimated to produce						
Surplus from securities in the hands of creditors fully secured (per contra)				50	0	0
£				2,111	5	6
Deduct creditors for distrainable rent, and for preferential rates, taxes, wages, Sheriff's charges, etc. (per contra)				100	0	0
£				2,011	5	6
Deficiency explained in statement (K)				14,538	14	6
£				16,550	0	0

I, Artemus Debtor, of 1998, Old Broad Street, London, E.C.. in the County of London, make oath and say, that the above Statement and the several lists hereunto annexed marked A, B, C, D, E, F, G, H, I, J, and K are to the best of my knowledge and belief a full, true, and complete statement of my affairs on the date of the above-mentioned Receiving Order made against me.

Sworn at 1749, Queen Victoria Street, in the County of London, this 3rd day of January 19—, before me, ROBERT DEEDS, *Signature* **A. DEBTOR.**

A Commissioner for Oaths.

* **High Court of Justice** *or* **the County Court of —— holden at ——.**

K

DEFICIENCY (OR SURPLUS) ACCOUNT

	£	s.	d.	£	s.	d.		£	s.	d.	£	s.	d.
Excess of assets over liabilities on the 1st day of January, 19— (if any) ...				10,065	0	0	Excess of liabilities over assets on the day of 19— (if any)...						
Net profit (if any) arising from carrying on business from the day of , 19 , to date of Receiving Order, after deducting usual trade expenses							Net loss (if any) arising from carrying on business from the day of , 19 , to date of Receiving Order, after charging against profits the usual trade expenses						
Income or profit from other sources (if any) since the 1st day of January, 19—				1,350	10	9	Bad debts (if any) as per Schedule "I"				8,000	0	0
Gifts from relations and others							Depreciation of Stock in Trade						
Deficiency as per Statement of Affairs...				14,538	14	6	Depreciation of Machinery						
							Depreciation of Trade Fixtures, Fittings etc						
							Expenses incurred since the 1st day of January, 19—, other than usual trade expenses, viz., household and personal expenses of self and wife and two children				8,056	10	0
							Other losses and expenses (if any)—						
							Losses through Stock Exchange speculations				3,897	15	3
							Losses through betting				6,000	0	0
							Surplus as per Statement of Affairs ...						
Total amount to be accounted for				£25,954	5	3	Total amount accounted for...				£25,954	5	3

Signature A. DEBTOR.

Dated January 3, 19—

The official Statement of Affairs in bankruptcy consists of the following forms—

(*a*) A statement in summary form showing the property owned by the debtor (valued as above set forth), the creditors' claims, and the amount of the **deficiency** *i. e.* the amount by which the debtor is insolvent.

(*b*) Schedules explaining the various classes of assets and liabilities brought (in totals) into the statement mentioned above.

(*c*) A **Deficiency Account** which is in effect a transcript, with the sides reversed, of the bankrupt's Capital Account in his own Ledger, showing the capital he possessed (or the amount by which he was insolvent) at a given date prior to the bankruptcy, his gains since that time and the losses which have reduced him to insolvency.

Statements of Affairs prepared at the commencement of the compulsory liquidation of Joint Stock Companies resemble those prescribed in bankruptcy, subject, of course, to the various modifications necessary owing to the constitution of the company.

An example illustrating the preparation of a Statement of Affairs in bankruptcy (the " Summary portion " contained on the " front sheet ") and the relative " Deficiency Account " is appended. In the illustration the " schedules " have not been included, as they are merely lists explanatory of the items included in the " summary," and would occupy too much space to set out in detail.

Example.—From the following information prepare the Statement of Affairs and Deficiency Account of " A. Debtor," against whom a Receiving Order was made on January 1, 19—

The total creditors amounted to £17,650, of which £500 is " fully secured " by a deposit of securities expected to realise £550; £1,000 is " partly secured " by a deposit of Stocks expected to realise £500; £1,000 represents a liability as indorser upon an Accommodation Bill expected to rank for the full amount, and £100 is rent for which the landlord can distrain, the remainder of the creditors are unsecured.

His assets are—Furniture, £10; Cash in hand, £1; Cash at Bank, 5*s*. 6*d*.; Investment, 50,000 fully paid £1 shares in the Ephemeral Gold Reduction Company, Ltd., valued at £1,000. Book debts—Good, £50; Bad, £4,000; Doubtful, £5,000 (the latter are expected to realise £1,000).

A. Debtor's capital on January 1, in the previous year, was £10,065, and his income since that date has been £1,350 10*s*. 9*d*.

He has, since that date, spent £8,056 10*s.* on household expenses, £3,897 15*s.* 3*d.* in losses on Stock Exchange speculations, £6,000 on losses through betting, and has sustained losses owing to bad debts to the extent of £8,000 (as above). (See pp. 452, 453 and 454.)

The accounts of a Trustee in Bankruptcy must be kept according to a prescribed form; they must be audited by the Committee of Inspection periodically (monthly in the case of the Trading Account, and quarterly as regards the other accounts), and they must be submitted, at half-yearly intervals, for audit by the Board of Trade. An audited transcript of the trustee's **Estate Cash Book** is transmitted by the Board of Trade to the Court where the Receiving Order was made.

Upon the conclusion of the distribution of the whole estate, or upon the realisation and distribution of all the realisable assets, the Trustee may apply to the Board of Trade for his **Release,** giving notice to all creditors who have proved their debts and to the Debtor of his intention to do so. A **Realisation Account** in the prescribed form, giving a summary of all the Trustee's receipts and payments, is sent out with the above notification. The granting of a "Release" to a Trustee discharges him from all liabilities incurred by him in the discharge of his duty to the bankrupt's estate and to the creditors.

Deeds of Arrangement

A **Deed of Arrangement** is a deed embodying an arrangement arrived at between an insolvent person and his creditors *generally*, or with certain creditors professing to act on behalf of themselves and all the other creditors. It differs from bankruptcy proceedings inasmuch as the arrangement is made privately by the debtor with his creditors, without the intervention of the Bankruptcy Courts.

A man may make such private arrangements with individual creditors as he is able to do. But if, being financially embarrassed, he executes a deed in favour of his creditors *generally*, by which he transfers all his property to one or more "trustees" for the creditors, to be held by them either for realisation and distribution among the creditors, or for the continuance of trading operations on their behalf, then the deed is termed a **Deed of Arrangement, and must be registered at a**

Government office.* Such a proceeding does not constitute an **Act of Bankruptcy** † (entitling a creditor to present a bankruptcy petition) if notice of the filing of the deed and its due "assent" is served upon creditors.

The most common form of Deed of Arrangement is one whereby the debtor transfers all his property to a trustee for the benefit of the creditors generally, in consideration of their releasing him from the debts he owes to them; the trustee under the deed being directed to realise the estate and to distribute the product among the creditors *pro rata* according to their claims. The deed is usually made between the debtor, one or more creditors, and a trustee for the latter, the trustee appointed being usually a professional accountant.

The assent of the requisite majority, viz., a majority in number and value of the creditors, must be obtained. This is established by the creditor executing the deed, or by his sending to the trustee his assent in writing, attested by a witness. In arriving at the requisite majority of creditors who have assented to the deed, "secured" creditors are reckoned for value for the balance of their debts after deducting the estimated value of the securities held by them; creditors for less than £10 are reckoned in the "majority in value," but not in the "majority in number." Failure to obtain the statutory "assent" renders the deed void.

A Deed of Arrangement is frequently put forward as a proposal by an insolvent debtor at a meeting of his

* Under the *Deeds of Arrangement Act*, 1914, such deeds are void unless registered within 7 days of execution and assented to by a majority in number and value of the creditors within 21 days of registration. The appropriate registration office is that of the Registrar of Bills of Sale at the Bills of Sale Department of the Central Office of the Supreme Court.

† The "Acts of Bankruptcy" are as follows. If the Debtor has—(*a*) made an assignment of his property in trust for his creditors generally; (*b*) made a fraudulent assignment of his property or any part thereof; (*c*) made a conveyance amounting to a "fraudulent preference"; (*d*) having, with intent to defeat or delay his creditors, departed out of England, or being out remained out, or absented himself, or begun to keep house; (*e*) suffered execution on his goods, provided they have been either sold by the sheriff or held by him for twenty-one days; (*f*) filed a declaration of his inability to pay his debts or presented a Bankruptcy Petition against himself; (*g*) neglected to pay or secure a judgment debt after service of a "Bankruptcy Notice"; (*h*) given notice to any creditor that he has suspended or is about to suspend payment of his debts.

creditors convened by him for the purpose of laying his position before them. From the point of view of the debtor, a Deed of Arrangement is preferable to bankruptcy proceedings, as it avoids the publicity and stigma consequent upon bankruptcy; from the creditors' point of view a "private arrangement" usually produces larger dividends within a shorter time than under the more cumbersome and costly official proceedings in bankruptcy.

Apart from a deed which contemplates immediate realisation and distribution, other varieties of Deeds of Arrangement are met with—*e. g.* (*a*) an arrangement whereby the debtor's business is to be continued by a committee of his creditors on behalf of the creditors generally; (*b*) an arrangement whereunder the debtor is to continue carrying on his business subject to the supervision of a committee of creditors.

No official form of Statement of Affairs for submission to creditors is prescribed in the case of a Deed of Arrangement, although if a meeting of creditors is being held to consider the terms of a suggested Deed of Arrangement, a Statement of Affairs is almost invariably laid before those who attend. The forms adopted usually follow the lines employed in bankruptcy proceedings, minus the verbiage of the official forms. Under the 1914 Act, trustees under Deeds of Arrangement must give security in the manner prescribed, unless excused by a majority in number and value of the creditors, and must open a separate banking account for the estate of the debtor, and must submit accounts to audit by the Board of Trade if a majority, in number and value, of the creditors so desire. Every six months a Statement of Accounts, in the prescribed form, must be sent to the creditors. Similar acccounts, verified by affidavit, must be sent to the Board of Trade.

Receipts and Payments Accounts

Many institutions and societies whose monetary transactions are of a benevolent or non-trading kind compile and publish their periodical financial statements in the form of a Receipts and Payments Account.

A **Receipts and Payments Account** is a statement dealing with *cash transactions only.* It is the simplest form in which a treasurer can render an account of his Steward-

ship. The account may be briefly described as being a condensed summary of the Cash Book, containing, on the Debit (Receipts) side, the actual money received during the period under review, and on the Credit (Payments) side, the cash actually disbursed during the same period, analysed under appropriate headings. No account is taken of any outstanding income or liabilities. As a matter of course, a statement of this kind must commence and close with the initial and final balance of cash in hand, at the beginning and end respectively of the period to which it relates.

The objection to such statements is that, in many cases, they do not disclose the actual income of the period they purport to cover. They include the balance from the previous period, and may also include receipts and payments belonging to previous, or subsequent, periods, *e. g.* subscriptions, or rent, in arrear, or paid in advance. Capital receipts and expenditure may also be included.

Such financial statements are most frequently met with in connection with sporting and athletic clubs, literary or benevolent institutions, and similar undertakings. In these cases the funds are usually entrusted to an "honorary treasurer," and, when such is the fact, the account is most appropriately headed as follows—

Alfred Barrow, Esq.,

Treasurer,

in account with

The Blackheath Common Literary Society

for the year ended December 31, 19—

In actual experience it is unfortunately the fact that the terms "Receipts and Payments Account" and "Income and Expenditure Account" are frequently regarded as being synonymous, whereas they are essentially different in character and result, inasmuch as an Income and Expenditure Account, as will be explained hereafter, deals with the total income and expenditure for the period covered by the account *no matter whether such income and expenditure has been received and paid or not.*

It is not an uncommon experience, moreover, to find the term "Receipts and Payments Account" applied to statements wherein Capital and Revenue receipts

and payments are combined in one and the same account.

It will be unnecessary to point out to the student, that, in such cases, the account should be strictly confined to the revenue items (in the form of an Income and Expenditure Account), a proper Balance Sheet being also presented in order to record the result of the capital transactions.

It will sometimes be the fact that a Receipts and Payments Account does actually represent the income and expenditure for the period dealt with, but this coincidence must not mislead the student into wrongly designating such a statement as an "Income and Expenditure Account." An account of this kind is merely a summary of the Cash Book, and the items therein appear upon the same sides as those upon which they would be recorded in the Cash Book.

Where a Receipts and Payments Account efficiently meets the book-keeping requirements, it is generally economical and advantageous to employ a Columnar Cash Book, in the analysis columns of which the final Receipts and Payments Account is being gradually compiled.

An example of a simple Receipts and Payments Account is given on page 461.

INCOME AND EXPENDITURE ACCOUNTS
(*Revenue Accounts*)

It is always preferable, when possible, to publish the accounts of institutions of the kind described above in a form which shows the whole of the income accruing to the society for the period covered by the account, irrespective whether such income has been received or not, together with the whole of the expenditure properly chargeable to the same period, irrespective whether such expenses have actually been paid, or are still outstanding. An account which fulfils these requirements is termed an **Income and Expenditure Account,** and differs essentially from a Receipts and Payments Account as previously described.

All items of income are shown on the credit side of the Income and Expenditure Account, whilst the expenditure appears on the debit side, just as is the case in connection with the items composing a Profit and Loss Account, the two accounts being precisely similar, although prepared to meet the needs of dissimilar undertakings.

The LORD STANLEY OF ALDERLEY, Treasurer, in account with the NATIONAL EDUCATION ASSOCIATION for the Year ended December, 31, 19—

		£	s.	d.			£	s.	d.
19— Jan. 1	To Balance in hand	567	19	0	19— Dec. 31	By Rent, Office Expenses, Stationery, etc.	181	5	11
Dec. 31	„ Donations and Subscriptions	1,034	0	0		„ Salaries and Wages (Secretaries, Clerks and Reporters), including expenses of Lectures, etc.	666	18	4
	„ Sales and Sundries	8	0	6		„ Printing (Publications, Leaflets, etc.)	174	14	1
	„ Interest on Special Fund Deposit	9	10	11		„ Parliamentary Papers, Books, Library Fittings, etc.	105	6	5
						Conference Expenses	3	6	6
						„ Postage	65	15	0
						„ Balance carried down— (£ s. d.) Special Fund—On Deposit ... 500 0 0; *Less* Amount due to Treasurer on Current Account ... 77 15 10	422	4	2
		£1,619	10	5			£1,619	10	5
19— Dec. 31	To Balance brought down— (£ s. d.) Special Fund—On Deposit ... 500 0 0; *Less* Amount due to Treasurer on Current Account ... 77 15 10	422	4	2					

The Income and Expenditure Account should be accompanied by a Balance Sheet wherein the Assets and Liabilities of the undertaking are set out in the ordinary way. It will be clear to the student that an Income and Expenditure Account, with its correlative Balance Sheet, demands an efficient double entry system of book-keeping.

The balance of the Income and Expenditure Account must be shown in the Balance Sheet, and represents the surplus or deficiency, as the case may be, as at the date of the Balance Sheet.

It is important to understand the distinctions between a Receipts and Payments Account and an Income and Expenditure Account, as they are often confused. They are summarised below :—

(*a*) A Receipts and Payments Account deals with cash *actually received and disbursed*, and is a condensed summary of the Cash Book and nothing more.

(*b*) An Income and Expenditure Account deals with the whole of the income and expenditure appertaining to the period, *whether such income and expenditure has actually been received and paid or not*, and in character approximates to the Profit and Loss Account employed in a trading concern. It forms an integral part of the accounts of a system of double entry book-keeping, just as a Profit and Loss Account does, whereas a Receipts and Payments Account is a cash statement forming no part of the book-keeping system.

An example of an Income and Expenditure Account is appended. This account forms one of a set of six similar statements, dealing with various branches of the work, and is accompanied by a Balance Sheet showing the financial position of the institution as on the closing date.

Revenue Accounts

The distinction between the terms "Income and Expenditure Account," "Profit and Loss Account," and "Revenue Account," is purely technical. The objects and construction of these accounts are practically identical. As in the case of the other two acconnts, the object of a Revenue Account is to ascertain the net profit for a

ROYAL SAILORS' RESTS.

MISS WESTON'S MISSION AND TEMPERANCE WORK

Income and Expenditure Account for the Year ended June 30, 19—

	£	s.	d.
To **Stock of Stationery, etc., at the beginning of year** ...	336	3	1
,, **Printing, Stationery, Advertising, and Travelling in connection with Meetings for this work**	1,597	5	9
,, **Salaries of Clerical Staff, Office Expenses, Carriage and Incidentals**	1,649	17	4
,, ***Monthly Letters***—cost of Printing and Distributing ...	671	11	2
,, **Royal Naval Temperance Society—Books, Pamphlets and Periodicals**	2,684	9	10
,, **Salaries and Expenses of Missionaries and Workers** ...	3,191	15	3
Repairs, Lighting, and Cleaning Halls	282	5	7
,, **Entertainments**—Band Expenses, Magic Lanterns, Cinematograph and Photography	1,259	12	9
,, **Teas**, Sailors' Wives' Meetings, Workrooms, Girls' Clubs, and Boys' Brigade	1,145	7	1
,, **Special Relief granted**	1,183	2	3
,, **Subscriptions to Foreign Sailors' Rests and Hospitals**	346	14	7
,, ***Ashore and Afloat***—			
Stock on hand, at the beginning of year £104 1s. 4d.			
Cost of Printing and Distributing ...... £1,718 18s. 9d.	1,823	0	1
	£16,171	4	9

	£	s.	d.
By Subscriptions and Donations	12,099	5	10
,, Admission Fees to Halls and Contents of Visitors' Boxes	210	5	3
,, Receipts at Sailors' Wives' Meetings	710	16	7
,, Sundry Receipts	168	13	11
,, *Ashore and Afloat*—			
Sales .... £2,421 1s. 5d.			
Stock on hand, June 30, 19— .... £71 0s. 8d.	2,492	2	1
,, Stock of Books, Pamphlets, Stationery, etc., on hand, June 30, 19—	376	0	2
,, Balance carried to General Income and Expenditure Account	114	0	11
	£16,171	4	9

period as revealed by a set of double entry books. The term is employed chiefly by Assurance Companies.

EXERCISES.

19A.

A. Wilson of London and B. Morris of Rio de Janeiro embark in a joint consignment of Manchester goods. Profits are to be shared equally between them. A. Wilson is to purchase in England and pay for the goods consigned, and is to draw upon B. Morris at sight for their invoice price (but not in respect of any disbursements).

A. Wilson consequently bought on January 1, 19—, Manchester goods to the value of £1,050, paying cash therefor, and disbursed on January 6, freight and shipping charges, £105 10*s.*; insurance, £4; packing £4 15*s.* On the same date he drew upon B. Morris for £1,050 at sight as agreed, and sold the Bill to the London and Brazilian Bank, Ltd., for £1,039 10*s.*, the discount is to be borne jointly between the parties to the venture.

B. Morris received the goods on February 1 19—, and disbursed on that date landing charges, £5 3*s.* 2*d*, and Government duty, £121 4*s.* 6*d.* He sold the goods for cash on February 3, 19—, for £1,726 4*s.* 2*d.*, and honoured A. Wilson's draft the same day.

On February 4 B. Morris prepared (from his own books and from the statements regarding the adventure rendered to him by A. Wilson) a combined statement regarding the transaction, and remitted to A. Wilson a cheque on London for the amount due to him.

Show the entries relating to the above venture as they would appear in either party's books, as well as a combined statement showing the result of the whole transaction.

19B.

A. B. is adjudged a bankrupt on September 1, 19—. His position at that date as shown by his books was as follows—

		£
(1)	Unsecured creditors	3,000
(2)	Secured creditors (Bankers), secured by deposit of Title Deeds relating to House Property (the property itself being estimated as worth its book value, viz. £1,500)	1,200
(3)	Preferential creditors for rates and taxes .	185
(4)	Cash at Bank	100
(5)	Book Debts	2,000
(6)	House Property (pledged with Bankers as above), valued at cost	1,500
(7)	Furniture, valued at cost	100
(8)	Investments, 1,000 £1 shares in the Amalgamated Construction Co., Ltd., valued at cost	400
	6,000 £1 Deferred Shares in the United Aviation Corporation, Ltd., valued at cost	1,075

Further inquiry reveals the following facts—

Item (5). Of the £2,000 Book Debts £100 are "good," and the balance must be treated as "doubtful" and estimated to produce £500.

Items (2) and (6). The House Property will only realise £1,000, out of which the Banker's claim has to be satisfied.

Item (8). The shares in the Amalgamated Construction Co., Ltd., may be taken as being worth 1*s.* each, and those in the United Aviation Co., Ltd., as being worth 1*d.* each. As regards his Deficiency Account, A. B. acknowledges that, two years prior to his bankruptcy, he was possessed of a capital of £10,000. His only income since that date has consisted of sundry director's fees amounting to £200. He acknowledges having spent, during the two years, £3,000 per annum on household expenses, and £2,000 in speculation, and has lost £1,400 through bad and doubtful loans (as above), and £1,410 spent in promoting a patent bottle company which proved a failure.

In addition to these matters are the losses expected to arise in connection with the realisation of his House Property and Investments as set out above.

From the above particulars prepare the Statement of Affairs and Deficiency Account of A. B.

19c.

The Maes-y-Gwyn Brickworks Co., Ltd., took, on January 1, 19—, upon lease from the landlord (Evan Ap Thomas, Esq., J.P.) a clay-pit upon the following terms: viz. a minimum rent of £300 merging into a Royalty of 6*d.* per ton, with power to recoup "short workings" over the first three years of the lease.

The annual output of the brickworks was as follows—

First Year . . .	5,000 tons.
Second Year . . .	11,000 ,,
Third Year . . .	14,000 ,,
Fourth Year . . .	20,000 ,,

Show the Landlord's "Royalties" and "Short Workings" Accounts as they would apply in the Company's books.

19d.

1. Explain what is meant by a Joint Adventure and how the transactions arising out of such an adventure are recorded.

2. What is the difference between a "Bankruptcy" and a "Private Arrangement" made by an insolvent debtor? Sketch briefly the main characteristics of each procedure.

3. Upon what principle is a Statement of Affairs prepared, and wherein does it differ from a Balance Sheet?

4. What are "Cost" accounts? Explain briefly the main principles underlying them.

5. Explain the following terms—

Royalties, Minimum Rent, "Short Workings," Receiving Order, Deficiency Account, Official Receiver, Joint Consignment.

6. What is Goodwill, and how is its value to be arrived at?

Answers—

19A. Profit on the joint adventure = £425 1*s.* 6*d.*, divisible equally between the parties.
Cheque remitted by B. Morris to A. Wilson to close the venture amounts to £337 5*s.* 9*d.*

19B. Deficiency, £2,510.
Totals of Deficiency Account, £12,710.

19C. First Year. Royalty, £125; Paid to Landlord, £300.
Second Year. Royalty, £275; Paid to Landlord, £300.
*Third Year. Royalty, £350; Paid to Landlord, £300.
Fourth Year. Royalty, £500; Paid to Landlord, £500.

* Note £150 irrecoverable short workings written off at end of third year.

CHAPTER XX

THE DIVIDEND AND INCOME TAX ACCOUNTS OF LIMITED COMPANIES

THE entries relating to the payment of dividends by a Limited Company appear to present difficulties to some students, not because of any complexity in the entries themselves, but because they sometimes involve Income Tax adjustments.

The fundamental underlying principle is that all income, whatever its nature, shall, as far as possible, be taxed *at its source.* Such a rule obviously simplifies the collection of the tax, and renders evasion more difficult. Companies, and similar corporate bodies, are, of course, merely the legal embodiments of the shareholders composing them. The property and profits of the company are the property and profits of the shareholders. In order to carry out the principle of taxing income at its source, the Inland Revenue authorities, in the case of a limited company, make their assessment for income tax on the profits of the company as a whole. It is upon this assessment that the company, and not its individual shareholders, pays tax.

Having paid tax on the whole of its profits in the statutory manner, it is open to the company to recover the tax on that portion of its profits distributed amongst its shareholders by the simple process of deducting the tax at the current rate from the dividend paid to them. If it adopts this course, the result is that the company ultimately bears only the income tax on that portion of its profits withheld from division among its shareholders. The student will realise that a company *must* thus recoup itself for income tax paid in the case of its preference, guaranteed, and other classes of shares entitled to a preferential dividend at a fixed rate, otherwise the pre-

ferential rate of dividend will be exceeded to the detriment of the ordinary shareholders. It *may* or *may not* adopt this course with reference to its ordinary or deferred shareholders, according to its discretion, or the provisions of its articles of association. The reason for this distinction is, that, when a company pays income tax on its profits, as a whole, it, in effect, pays the tax due from each shareholder in respect of his share of the profits. The tax having been paid on the total profits no further tax is payable by the shareholder, unless his *total* income is liable to sur-tax. This is so whether the company has, or has not in a particular case, deducted tax from the dividend. It is clear that, if the tax is not deducted from the *fixed* preferential dividends, the sums paid to the preferential shareholders will amount to more than the fixed rate to which they are entitled. Thus if dividends due on 6 per cent. preference shares are paid without deduction of the tax, the actual rate will not be 6 per cent., but 6 per cent. plus the tax, which at, say, 10*s*. in the £, makes the dividend £12 per cent. This would be unfair to the shareholders entitled to the balance of the profits and it is therefore illegal. Dividends on ordinary or other shares entitled to the balance of any profits which may remain after the payment of the fixed dividends may, at the option of the company, be paid without deduction of the tax; the payment of a dividend "free of tax," as it is termed, merely amounts in such cases to the payment of a much higher rate of dividend than is apparent at first sight. The phrase "free of tax," although in common use, is not very happy, as all income is liable to tax in one form or another.

When a company pays tax on its profits it must debit the payment to the Income Tax Account. If it pays any dividends *less tax* (as it is compelled to do if the dividends are preferential), it has an option as to whether to show the dividend in its Profit and Loss Account "gross" (*i.e.* the amount before deduction of tax) or "net" (the amount after deduction of tax). At one time the former practice was common and was generally laid down in text books as the rule: however, for reasons which we need not discuss here and which caused (*inter alia*) a recommendation on the subject to be issued by the Institute of Chartered Accountants, the modern practice is now the reverse: it is the almost universal custom for

companies to show dividends paid by them "net." (Note, however, that this applies only to *dividends*, not to interest on debentures, which should always be shown gross, as also should all interest and dividends *received*, even though such receipt may be from another limited company.)

If the dividend paid is shown net, the amount appearing in the Profit and Loss Account is equal to the total of the warrants distributed to the shareholders and there is no transfer to the credit of Income Tax Account: in this case (subject of course to other possible adjustments) the charge for income tax appearing in the Profit and Loss Account represents simply the total amount of tax paid to the Revenue, the treatment being the same as though the dividend had been declared "free of tax." On the other hand, in the case of debenture interest (and the same would apply to a dividend if, contrary to custom, it should be decided to show the dividend "gross") the amount of tax deducted is dealt with in the books by debiting it to the interest (or dividend) account and crediting it to Income Tax Account. The amount appearing in the Profit and Loss Account under the heading of Income Tax is therefore reduced and represents the balance of tax borne by the company after deducting the proportion recovered from the debenture holders (or shareholders).

A company sometimes declares a dividend "free of tax." The actual expression used may vary: whatever words are used the meaning is that payment of the dividend is made without any deduction of income tax and the result is that the effective rate of the dividend is increased, the proportionate increase depending on the rate of tax. For instance, with tax at 9*s*. in the £ (the actual rate in 1949–50), a "tax free" dividend of 11 per cent is equivalent to a dividend (subject to tax) of 20 per cent: if the rate of tax were (say) 6*s*. in the £, a tax free dividend of 5 per cent would be equivalent to a gross rate of $5 \times \frac{20}{14}$, or $7\frac{1}{7}$ per cent and so on. So far as concerns that class of shareholders who own the "equity" of the business, that is to say those who are entitled to the balance of profit ultimately remaining after prior classes have received their fixed shares (normally the preference shareholders), there can be no objection to the declaration of a dividend free of tax, and a number of well known public companies (though the number is tending to

decrease) make a regular habit of doing so. The student should realise, however, that this does not mean that the shareholders in question in any way avoid the incidence of tax or escape bearing their fair share of tax. Tax is paid by the company on the whole of its profits and it is only out of the balance remaining after the tax has been paid that the shareholders can receive their dividend : the amount so remaining and the proportion thereof which it may be thought right to distribute as dividend (which determines the amount available per share) is precisely the same whether that amount is described as a certain amount free of tax or a correspondingly larger amount less tax.

As regards preference shares, however, different considerations apply. The rights of several classes of shares are determined by the company's Memorandum or Articles. If the Articles provide that a certain class of shares is entitled to a dividend of (say) 5 per cent per annum (and no more), then tax *must* be deducted from the preference dividend : to pay 5 per cent free of tax in such a case would be to pay to the preference shareholders more than they are legally entitled to receive. Any such excess payment would diminish the balance of profit available for the ordinary shareholders, and the ordinary shareholders could object. There is nothing in law to prevent the Articles providing that preference shares shall be entitled to a stated rate of dividend " free of tax " (this is not the actual form of wording that would be used, but it expresses the meaning and intention) and instances do exist : they are, however, rare, at any rate as regards public companies.

As regards book-keeping entries, the proper course in any event is to debit to Dividend Account the actual amount paid, making no entry as regards the tax which represents the difference between this actual dividend and the larger " equivalent gross " dividend to which it corresponds.

It is usually more convenient to transfer the amount necessary to meet the payment of a dividend from the company's general banking account to a separate Dividend Account opened at the Bank. The shareholders' dividend warrants are then drawn on the Dividend Account. Separate Dividend Accounts are generally used for each successive dividend, and for each class of stock or shares issued. It usually happens

that some of the dividend warrants are not presented within a reasonable time, and some of them may never be presented at all. After a reasonable time has elapsed, (usually six months) the amount of the unpresented warrants can be transferred from the separate Dividend Accounts into one general banking account for unclaimed dividends, the amount being at the same time written back in the company's books as a liability. Dividends are specialty debts and are, therefore, not statute barred for twenty years, but after the expiration of this period a company could usually plead the Statute of Limitations if called upon to pay a "stale" dividend warrant. But an entry in a Balance Sheet of debenture interest or dividend unclaimed is a sufficient acknowledgment of the debt to prevent the claim being barred (*Burnham* v. *Atlantic and Pacific Fibre, etc., Co.*, 1928, *W.N.* 199). Even, however, where the Statute could be pleaded, few companies would take advantage of the Statute, if satisfied as to the *bona fides* of the claim: a company whose shares are quoted on a stock exchange can never do so, since an undertaking to this effect is one of those which must be given by any company before its shares are allowed to be dealt in. Subject to the above, there is nothing to prevent the transfer of unclaimed dividends to the credit of Profit and Loss Account or General Reserve.

In large companies, particularly in cases where several classes of shares have been issued, it is usual to keep a **Dividend Book or Sheets** in which details of the dividends paid and the tax deductions therefrom are recorded. A specimen of this book is given on page 473.

A specimen of a dividend warrant appears on p. 472.

The cheque forming the bottom half of the warrant is detached by the recipient, and paid into the bank in the ordinary way. The common practice is to provide space for the signature of the payee on the face of the cheque; and no endorsement of the cheque is then necessary. This method is convenient for filing * and audit purposes. The upper portion of the Warrant,

* It is not usual to retain counterfoils of the Dividend Top and Warrant since this would involve unnecessary repetition of the Dividend Book. Where, however, this is done, the paid Warrants can be attached to their counterfoils. Otherwise, the Warrants may be pasted on special sheets as they are returned from the bank, or, as is more usual, they may be filed in spike binders, or bound into books.

commonly called the "Dividend Top," is retained by the recipient for production in case of need for income tax purposes. As a general rule the statements of taxed income made by private individuals are accepted by the authorities without any demand for the production of dividend or interest warrant counterparts. When claims for exemption or abatement are made, however, such documentary evidence is invariably called for. In any case, the investor should retain his counterpart warrants for a reasonable time in case he may be called upon to produce them.

DIVIDEND WARRANT

HENDERSON'S TRANSVAAL ESTATES, LIMITED.

No 215 DIVIDENDS NOS 19 & 20.

Bilbao House, 36 38 New Broad Street,
London, E.C.2
5th August 1931

This part to be retained by the Proprietor will be accepted by the Income Tax Commissioners as a Certificate of the deduction of Income Tax.

Dear Sir (or Madam),

I beg to hand you herewith Warrant for final Dividend of 2½% declared at the General Meeting held on 24th June, 1931, making with the interim Dividend already paid, a total of 5% for the year ended 31st March, 1931, also for the interim Dividend of 2½% in respect of the year ending 31st March, 1932, making 5% in all, less Income Tax.

Total Dividend of 5 per cent on 62 Shares	£ — : 12 : 5
Less Income Tax at 4/6 in the £	£ — : 2 : 10
	£ — : 9 : 7

Griffith E. Evans, Esq., & Anor.
Norbury House,
London Road,
2603 Norbury, S. W. 16.

Your obedient Servant
F R CUNNINGHAM,
Secretary

I hereby Certify that the Income Tax on the Assessable Profits of the Company has been or will be accounted for to the proper Officer for the receipt of Taxes.

ANY CHANGE OF ADDRESS SHOULD BE AT ONCE NOTIFIED TO THE SECRETARY

4 507

HENDERSON'S TRANSVAAL ESTATES, LIMITED.

No. 2154 DIVIDENDS NOS. 19 & 20

London, 6th August, 1931

N.B.—Warrants not presented for payment within six months from date of issue must be sent to the Company's Office for verification.

NATIONAL PROVINCIAL BANK, LIMITED.
PRESCOTT'S OFFICE, 50, CORNHILL, E.C.3.

Pay Griffith E. Evans, Esq., & Anor.
Norbury House,
London Road,
2603 Norbury, S. W. 16.

or order & Co

TWO PENCE

20

the sum of Nine Shillings & 7d

£ — : 9 : 7

For and on behalf of
Henderson's Transvaal Estates, Limited
F R Cunningham
Secretary

H A Browne
Assistant Secretary.

T

Signature of Payee ....

RAYON D'OR, LIMITED.

DIVIDEND BOOK (OR SHEET)

(ORDINARY SHARES.)

Dividend of 5% payable on the 15th day of March, 19—, in respect of the year ended December 31, 19—.

Folio Share Register.	No. of Dividend Warrant.	Payees.		Payee's Holding.	Gross amount.			Income Tax Deducted at —in the £			Net Amount of Warrant.			Date Cleared at Bank.	Remarks.
		Name.	Address.		£	s.	d.	£	s.	d.	£	s.	d.		
															When directions are received to pay dividends to shareholders' Bankers, notes are made here of the Banks in question. These particulars are set out in the "name" and "address" columns.

NOTE.—Separate Dividend Sheets should be employed for each class of share in respect of which dividends are paid. When complete the loose sheets should be bound in book form.

The subjoined example will serve as an illustration of the rules explained in this chapter.

The South Western Distribution Co., Ltd., has an issued share capital consisting of 50,000 6 per cent. Preference Shares and 50,000 Ordinary Shares, all of £1 each and fully paid, and a loan capital of £40,000 5 per cent. Debenture Stock. As on 31st December 19–0 the company's balance of undivided profit, before charging the debenture interest or declaring any dividends for the year, amounted to £10,500. On 31st December the company paid the debenture interest for the year, less tax at 9*s*., and on the following March 5th resolutions were passed (*a*) to transfer £1,000 to General Reserve, raising it to £5,000, (*b*) to pay a year's dividend on the 6 per cent. Preference Shares, less tax, and (*c*) to pay a dividend of 8 per cent. free of tax, on the Ordinary Shares.

The entries in the company's books recording these transactions will be as follows (note that the company's *published* Profit and Loss Account, not shown here, will be somewhat different in arrangement and wording though the figures will agree) :—

Dr. PROFIT AND LOSS ACCOUNT **Cr.**

			£	*s.*	*d.*				£	*s.*	*d.*
19–0 Dec. 31	To Debenture Interest	J.	2,000	0	0	19–0 Jan. 1	By Balance brought forward	√	10,500	0	0
19–1 Mar. 5	,, General Reserve Account	J.	1,000	0	0						
5	,, Preference Dividend Account (amount of dividend less tax)	J.	1,650	0	0						
5	,, Ordinary Dividend Account (8% free of tax)	J.	4,000	0	0						
5	,, Balance carried forward ...	√	1,850	0	0						
		£	10,500	0	0			£	10,500	0	0
						19–1 Mar. 5	By Balance brought forward	√	1,850	0	0

GENERAL RESERVE

Dr. | Cr.

			£	s.	d.				£	s.	d.
19-1 Mar. 4	To Balance carried forward...		5,000	0	0	19-1 Jan.1	By Balance brought forward	√	4,000	0	0
						Mar.4	„ Transfer from Profit and Loss Account.........	J.	1,000	0	0
		£	5,000	0	0			£	5,000	0	0
						19-1 Mar.5	By Balance brought forward	√	5,000	0	0

DEBENTURE INTEREST ACCOUNT

Dr. | Cr.

			£	s.	d.				£	s.	d.
19-0 Dec.31	To Cash	C.B	1,100	0	0	19-0 Dec.31	By Profit and Loss Account	J.	2,000	0	0
	„ Income Tax	J.	900	0	0						
		£	2,000	0	0			£	2,000	0	0

PREFERENCE SHARE DIVIDEND ACCOUNT

Dr. | Cr.

			£	s.	d.				£	s.	d.
19-1 Mar. 5	To Cash	C.B.	1,650	0	0	19-1 Mar. 5	By Profit and Loss Account	J.	1,650	0	0

ORDINARY SHARE DIVIDEND ACCOUNT

Dr. | Cr.

			£	s.	d.				£	s.	d.
19-1 Mar. 5	To Cash	C.B.	4,000	0	0	19-1 Mar.5	By Profit and Loss Account	J.	4,000	0	0

INCOME TAX ACCOUNT*

Dr. | Cr.

			£	s.	d.				£	s.	d.
19—						19-0 Dec.1	By Debenture Interest......	J.	900	0	0

* The credit entry in this Account will reduce the debit for Income Tax paid to the Inland Revenue authorities on or after January 1st.

Some companies, *for financial reasons*, occasionally pay a dividend to their shareholders in the form of additional fully paid shares instead of in cash. In such

cases, the profits earned are applied in paying up the amount due on the shares thus issued, either in part or in full. The necessary book-keeping entries are made on lines identical with those set forth above, except that the Share Capital Account (and the **Premium on Shares Account,** if the shares are issued at a premium) is credited in place of the Cash Account. The following is an example of the procedure in such a case.

The Lough Neagh Steam Navigation Co., Ltd., with an authorised capital of £150,000, and an issued capital of £100,000 in £1 shares (the current market price of which is 2¾) decides on January 9, 19—, to pay a dividend to its shareholders in the form of one £1 share, taken at a price of £2, for every 50 £1 shares held. The balance of profit available prior to this transaction amounts to £8,000. Show these transactions in the Company's Ledger.

Dr. SHARE CAPITAL ACCOUNT Cr.

			£	s.	d.				£	s.	d.
19—						19—					
Jan. 10	To Balance carried forward (102,000 £1 Shares) ...	√	102,000	0	0	Jan. 9	By Balance brought forward	√	100,000	0	0
						" 9	" Transfer from Dividend Account, 2,000 Shares issued as fully paid in payment of Dividend	J.	2,000	0	0
		£	102,000	0	0			£	102,000	0	0
						19—					
						Jan.10	By Balance brought forward	√	102,000	0	0

Dr. SHARE PREMIUM ACCOUNT Cr.

			£	s.	d.				£	s.	d.
19—						19—					
						Jan.9	By Premium on 2,000 £1 Shares issued @ £2 each in payment of Dividend	J.	2,000	0	0

DIVIDEND ACCOUNT

Dr. | Cr.

Date	Particulars	Fo.	£	s.	d.	Date	Particulars	Fo.	£	s.	d.
19— Jan. 9	To Transfer to Share Capital Account (2,000 Shares of £1 each		2,000	0	0	19— Jan. 9	By Transfer from Profit and Loss Account.........	J.	4,000	0	0
„ 9	„ Transfer to Share Premium Account (for Premium of £1 per Share on 2,000 Shares of £1 each, issued @ £2 per Share)............		2,000	0	0						
		£	4,000	0	0			£	4,000	0	0

PROFIT AND LOSS ACCOUNT

Dr. | Cr.

Date	Particulars	Fo.	£	s.	d.	Date	Particulars	Fo.	£	s.	d.
19— Jan. 9	To Transfer to Dividend Account............	J.	4,000	0	0	19— Jan. 9	By Balance brought forward	√	8,000	0	0
„ 9	„ Balance carried forward ...	√	4,000	0	0						
		£	8,000	0	0			£	8,000	0	0
						19— Jan. 10	By Balance brought forward	√	4,000	0	0

CHAPTER XXI

INVESTMENT ACCOUNTS, ETC.

INVESTMENTS dealt in on the London Stock Exchange are, as a general rule, of two classes, viz.—

Class 1. The **Public Loans** issued by various British and Foreign Governments and Municipalities, and the **Borrowings** of various important trading corporations secured, in most cases, by mortgage.

Class 2. The **Stock** or **Shares,** forming the proprietors' capital, of various trading and financial corporations.

Securities comprised in Class 1 usually yield a fixed annual rate of interest. In many cases they are redeemable at fixed dates; in other cases (*e.g.* 2½ per cent. Consols) only at the option of the borrower, and *after* the expiration of a stated period. Again, sometimes, securities of this class are not redeemable at all—the loans being in effect **perpetual,** and occasionally they are so described.

Securities comprised in Class 2 are usually entitled to either (*a*) a fixed rate of dividend preferentially to other securities issued by the company, in which case they are usually called **Preference Stocks or Shares,** or (*b*) the whole of the profits of the company, after the fixed preferential dividends and charges have been met. In the latter case they are generally styled **Ordinary, or Deferred Shares.** In the case of all securities in Class 2, whether preferential as regards dividend or not, the holder's income from them is *contingent* upon the profit earned by the company. But the securities mentioned in Class 1 are loans, and the annual interest on them is payable by the borrower *in any event.*

The market prices of both classes of securities fluctuate constantly according to the demands of trade for ready

money, the political situation, the reputed financial position or prosperity of the nation, or of the body issuing the securities, and other similar factors.

The following description of an Investment Account is more particularly applicable to an investment bearing a fixed rate of interest. The ordinary or deferred shares of trading companies and other investments yielding a fluctuating dividend are, however, treated upon exactly similar lines, except for the fact that calculations as to accrued dividends can only be made after the income has actually been declared payable. It is obvious that as the rate of the dividend is uncertain, the precise amount of the income outstanding at any given date cannot be calculated in advance.

When an investor purchases a fixed interest bearing security quoted on the Stock Exchange, he usually acquires, in exchange for his money, a certain share or fraction of the nominal capital of some particular issue of loan or stock. The amount of the nominal capital acquired will usually differ from the amount of money the investor has had to pay for it; the two amounts can only coincide in the case of securities purchased at their exact nominal value. For example, an investor may purchase 2½ per cent. Consols at 79½, *i.e.* for every £79 10*s.* (ignoring brokerage) he will acquire £100 nominal "Consolidated 2½ per cent. Stock." It is therefore advisable to include in an Investment Account a set of money columns, on each side, to contain the *nominal* amount of each purchase and sale.

In the case of almost all securities dealt in on the London Stock Exchange the market price, except when it is quoted **ex dividend** (*i. e.* excluding the current dividend), includes any interest or dividend which may have accrued on the stock since the last date at which either was paid; that is to say the securities are dealt in **cum dividend** (together with the current dividend). This accrued interest is, of course, added to, and swells the price of the stock, which is therefore quoted at a higher rate than it would be if no question of accrued interest or dividend were involved. It is also the common experience that whenever a payment of interest or dividend takes place on any particular stock the market price falls by an amount equal to the amount of the dividend paid on it. For example, if the investor purchases £100 Consols at 79½ on November 5, he receives

in exchange for his money not only £100 nominal stock, but also the right to the one month's interest on £100 at 2½ per cent. already accrued on the stock since the last dividend payment. The interest for this one month will not, of course, come to him as a separate payment, but will form part of the full three months' interest paid on January 5 in the following year.* The purchaser in this case would make his calculation in the following form—

	£	*s.*	*d.*
Price paid for £100 Consuls at 79½, plus 5*s.* brokerage and 6*d.* stamp	£79	15	6

Divisible as follows—

	£	*s.*	*d.*
Accrued dividend, 1 month on £100 at 2½ per cent. less tax at, say, 9*s.* in the £1		2	3
True cost of £100 Consols . .	79	13	3
Total disbursement as above .	£79	15	6

Similarly, in dealing with the cash realised by an investment sold *cum div.*, the seller should deal with that portion of the purchase price which represents accrued interest as income for the period.

In addition to the usual sets of money columns for recording the cost of the investment, and the nominal amount of each purchase or sale, it is customary to provide a third set of money columns on each side of an Investment Account for the purpose of dealing with the interest receivable on the investment, and for any adjustments which may be necessary. The actual ruling of the account is shown in the subjoined example.

The rules for working such an account are as follows—

1. On the purchase of any security ascertain how much of the purchase price represents (*a*) accrued interest, and how much of it represents (*b*) the true cost of the investment. Enter the former in the " Interest " column, and the latter in the " Principal " column, both entries being of course on the debit side. Enter the nominal amount

* The Bank of England strikes the balance of stocks inscribed with it at various dates prior to the date on which the dividend is payable, the period varying between four and six weeks, according to the stock concerned. Thereafter these stocks are transferable *ex dividend.*

of the stock purchased in the stock column on the debit side.

2. When dividends are received, credit them in the interest column on the credit side.

3. At the end of any stated period (*e. g.* at the end of each year) transfer to a Dividends Account, or direct to the Revenue Account, the balance of the interest columns (Dr. and Cr.) in the Investment Account. This balance should be the exact amount of the income for the year, if the investment has been held for a whole year, or for the broken portion of a year if it has been held for a shorter period. Any interest which has accrued but is not yet payable at the date of any given balancing may be brought down as a provision in the interest columns on the debit side of the account in order that the transfer to Revenue Account may represent the full interest on the investment for the period.

4. On the sale of a security, ascertain what portion of the proceeds represents accrued interest, and what portion the principal, and credit these two amounts in the credit Interest and Principal columns respectively. Any balance remaining in the principal columns represents Capital profit or loss on the transaction, according as it is a credit or debit balance.

The following example will illustrate the above rules more clearly.

Example.—I bought on September 30, £1,000 Ruritanian Government 4 per cent. Sterling Bonds at 85, plus 10*s*. per cent. brokerage, and 4*s*. stamps, making the total cost £855 4*s*. I held these bonds until March 31, two years afterwards, when I sold them for £910 3*s*. 6*d*. net. Show my Investment Account for this period. Interest is paid on these bonds on June 30 and December 31 in each year. Assume that Income Tax was payable at the rate of 10*s*. in the £ throughout the period to which the account refers. (For solution see overleaf.)

Investments cannot be said to depreciate in the ordinary sense, but they frequently fluctuate in capital value. The *valuation*, for Balance Sheet purposes, of the investments held by a trader or a company opens up questions of great interest to accountants, but from the student's point of view the essential thing to consider is the purpose for which the investments are held. If they represent the Reserve Fund, or are held in order to strengthen the general financial position of the undertaking, they should be valued at *cost price*. Temporary

RURITANIAN GOVERNMENT 4% STERLING LOAN OF 19—. Dividends payable June 30, Dec. 31. Principal repayable 19—, or at par after Jan. 1, 19—.

Dr.

Date.	Particulars.	Folio.	Nominal Amount. £	s.	d.	Interest. £	s.	d.	Principal. £	s.	d.
1st yr. Sept. 30	To cost at 85 plus brokerage and stamps, of 10 £100 Bonds Nos. XY324610/324619	C.B.	1,000	0	0	5	0	0	850	4	0
Dec. 31	„ Transfer to Revenue Account	J.				5	0	0			
			£1,000	0	0	£10	0	0	£850	4	0
2nd yr. Jan. 1	To Balance brought down...	√	1,000	0	0				850	4	0
Dec. 31	„ Transfer to Revenue Account	J.				20	0	0			
			£1,000	0	0	£20	0	0	£850	4	0
3rd yr. Jan. 1	To Balance brought down...	√	1,000	0	0				850	4	0
Mar. 31	„ Transfer to Revenue Account	J.				5	0	0			
„ 31	„ Transfer to Capital Account, being Capital Profit on Sale of Investment	J.							54	19	6
			£1,000	0	0	£5	0	0	£905	3	6

Cr.

Date.	Particulars.	Folio.	Nominal Amount. £	s.	d.	Interest. £	s.	d.	Principal. £	s.	d.
1st yr. Dec. 31	By 6 months' interest at 4% p.a., £20, less Income Tax at 10s. in £1	C.B.				10	0	0			
„ 31	„ Balance carried down	√	1,000	0	0				850	4	0
			£1,000	0	0	£10	0	0	£850	4	0
2nd yr. June 30	By 6 months' interest at 4% p.a., less Income Tax at 10s. in £1......	C.B.				10	0	0			
Dec. 31	„ Do. do.	C.B.				10	0	0			
„ 31	„ Balance carried down	√	1,000	0	0				850	4	0
			£1,000	0	0	£20	0	0	£850		0
3rd yr. Mar. 31	By proceeds of Bonds sold for £910 3s. 6d. net (at 91¼% less charges)	C.B.	1,000	0	0	5	0	0	905	3	6
			£1,000	0	0	£5	0	0	£905	3	6

market fluctuations in the values of investments held for these purposes may be ignored. But if any *permanent* depreciation has taken place it should be provided for. In cases where the purchase and sale of investments form the principal business, or a considerable part of the business, investments may be regarded as stock-in-trade of the concern, and are frequently valued at the mean market price of the day. That is to say, at the average between the highest and lowest quotations given in the current official list of quotations. Where investments are held to a considerable amount it is usual at balancing dates for the company, or firm, to prepare a schedule showing, in two columns, the book value (Ledger Account Balance) of the securities and their value at the mean market price of the day. The present market value can then be readily compared with the value at which they stand in the books.

Under the Companies Act, 1948, companies are obliged to show, under separate headings, "the aggregate amounts respectively of the company's trade investments, quoted investments other than trade investments and unquoted investments." The expression "quoted" here means quoted on a recognised stock exchange. The basis of valuation must of course be stated and if this is "at cost" or "at cost less amount written off" or the like, it is obligatory, in the case of a quoted investment, to add a note of the current market price. In some cases, special Reserves are created for fluctuations in investments. Investments which represent a reserve fund should be separately stated in the Balance Sheet. The statutory requirements as to investments in subsidiary companies have already been mentioned.

Unquoted investments, and investments for which there is no ready market, often present considerable difficulties to accountants and auditors with reference to their valuation. In unscrupulous hands they lend themselves to manipulation for the purpose of creating fictitious "paper" profits. The only rule that can be laid down with regard to such investments is that their valuation must be upon as conservative a basis as possible, and should lean to undervaluation rather than otherwise.

Limited Partnerships

Bovill's Act, 1865, afterwards incorporated in the *Partnership Act*, 1889, first made it possible to lend

money to traders in return for a share of the profits without incurring partnership risks. Such loans could however, be made only to *individuals*, and not to *firms*, and, in order to escape the risk of liability to the creditors of the business, it was necessary to avoid any act which might be construed as legal "interference" with the management of the business. In the event of insolvency the repayment of such loans was postponed until all other creditors had been satisfied. It was in order to avoid these risks, and to come into line with similar arrangements in foreign countries, that a new act was passed, the *Limited Partnership Act*, 1907.

Under the **Limited Partnership Act, 1907,** loans carrying a share in the profits of a business may now be advanced to *firms*, provided the transaction is duly registered with the Registrar of Companies.*

The particulars which must be registered are :—(*a*) general nature of the business; (*b*) the firm name; (*c*) principal place of business; (*d*) the names of the partners; (*e*) the date of the commencement and the term of the partnership; and (*f*) the amount contributed by the limited partner (or partners), and how paid, whether in cash or otherwise.

Beyond the advantage mentioned above it is difficult to see that there is any urgent need for the Act. The facilities offered by the registration of Private Companies are so attractive that the *Limited Partnership Act* has been somewhat neglected. Indeed, such little use has been made of the Act that the student will be imprudent if he spends much time in committing its details to memory. It is unlikely that he will need such knowledge, either in the examination room or in actual practice. Brief attention may, however, be given to the following points.

A Limited Partnership is one which consists of one or more **General Partners,** who are liable without limitation for the debts and obligations of the firm, and one or more **Limited Partners,** who contribute agreed sums as capital, and whose liability is *limited* to the amounts they contribute. No Limited Partnership may consist of more than twenty members, or, in the case of a Bank, of more than ten members.

* A Registration fee of £2 is payable, together with a duty of 10*s*. per £100 on the amount of the loan. Any person may inspect the register on payment of the usual search fee of 1*s*.

A Limited Partner may increase his holding in the firm, but no partnership rights attach to the investment beyond the privilege, granted by S. 6, to "inspect the books of the firm, examine into the state and prospects of the business," and advise the partners thereon. The conduct of the business must be in the hands of the General Partners. Limited Partners cannot withdraw the sums advanced by them during the continuance of the business; but they may assign their share in the partnership with the consent of the General Partners. The death or bankruptcy of a Limited Partner does not dissolve the firm. "Interference" in the conduct of the business renders a Limited Partner liable, during the term of such interference, to the same risks and obligations that are attached to the General Partners. The Act contains other modifications of the Partnership Acts, but the above outline will be ample for the general student.

Both the law and the book-keeping of Limited Partnerships are fully dealt with in *Higher Book-keeping and Accounts*.

Unlimited Liability of Directors

The *Companies Act*, 1948 (SS. 202 and 203), which reproduces the provisions of SS. 146 and 147 of the 1929 Act, contains provisions in some respects similar to those of the *Limited Partnership Act* of 1907. Under the Act quoted above the **Directors** and **Managers** of a Limited Liability Company have power personally to assume *unlimited liability* for the debts of the Company, while the liability of the shareholders remains limited in the ordinary way.

So far as the authors are aware these provisions remain practically unused.

Table A and the Memorandum and Articles of Association of Limited Companies

Many inquiries from students have reached the author whether candidates for book-keeping examinations are expected to be familiar with the usual details of the Memorandum and Articles of Association of Limited Companies, or to memorise the whole of the clauses of Table A. It should hardly be necessary to state that any such effort would be an egregious waste of time! The framing of the Memorandum and Articles of Association of a Limited Company is strictly legal work, and questions

arising out of such work would be entirely out of place except in professional examinations where Company Law is specified as a subject in the syllabus. The Memorandum and Articles of a Limited Company, and the uses and application of Table A, have already been dealt with (in the Joint Stock Companies Chapter) in ample detail for the present stage of the student's progress.

CHAPTER XXII

BANK ACCOUNTS

Some of the chief features of Bank Accounts are dealt with in this chapter, which has been included in response to many requests.

The employment of various mechanical methods of economising detail and saving labour are becoming increasingly popular in banking circles, and no attempt can be made in this place to keep pace with these new and diverse methods. All that is here attempted is to outline the somewhat specialised system upon which bank book-keeping is based.

Where a comprehensive and more technical knowledge of Bank Book-Keeping is required, the student is referred to those text-books dealing exclusively with the subject.

It would be difficult to over-estimate the services rendered to commerce by the present Banking system. The modern Banker (*a*) receives money on current account repayable on demand, and on deposit account repayable with interest after due notice; (*b*) collects cheques and cash articles; (*c*) facilitates the remittance of money by means of drafts and cheques; (*d*) furnishes a convenient method of obtaining money abroad by issuing Traveller's Cheques, and Letters of Credit; (*e*) supplies traders with reliable information regarding the financial standing of other traders; (*f*) buys and sells stocks and shares for customers, (*g*) loans money on reasonable terms upon adequate security; (*h*) discounts Bills of Exchange and Promissory Notes for customers; (*i*) stores for safe custody on behalf of customers, securities, jewellery, and other valuables, and, generally, performs many other services of great usefulness to the commercial community.

The financial position of the leading banks in the United Kingdom is practically beyond criticism, for, in

addition to a large paid up capital, the majority hold in reserve a still larger sum of uncalled capital (in many cases this can only be called up in the event of liquidation) and possess well-invested Reserves which, in some cases, are equal in amount to the called up capital.

The Bank of England is the premier bank in the United Kingdom. It was instituted by letters patent in 1694 and remained a Joint Stock Company until 1946, when it was brought into public ownership by the *Bank of England Act* 1946. By this Act the Bank came under public control and provision was made with respect to the relations between the Treasury and the Bank of England on the one hand, and the Bank of England and the other Banks on the other. A court of directors was appointed, consisting of a Governor, a Deputy Governor and sixteen directors, all these appointments being made by the Crown. Subject to any directions that may from time to time be given by the Treasury the management of the Bank rests with the court of directors and is to be in accordance with any such provisions as may be contained in any charter of the Bank for the time being in force and any bye-laws made thereunder.

The issue of bank notes in England and Wales is confined to the Bank of England, whose powers of note issue are defined in the Bank Charter Act of 1844, amended by the Currency Bank Notes Acts of 1928 and 1939. The Issue Department is distinct and separate from the Banking Department. Under the Act first mentioned, the Bank was given power to issue notes to the extent of £14,000,000, called the **fiduciary issue**. This issue was covered by the Government debt of £11,015,100 and interest bearing securities to the value of £2,984,000. Power was also given to the Bank to issue further notes against securities to the extent of two-thirds of any issue lapsed or forfeited by a country bank. Through amalgamation with London banks and other causes, all the country banks have lost their right of issue, and the fiduciary issue of the Bank was increased to £19,750,000. The payment of all notes issued by the Bank above this fiduciary issue had to be guaranteed by coin or bullion deposited in the Issue Department. A **Bank Return** under the terms of the Act is published every Wednesday, and appears in Thursday morning's newspapers. This return constitutes the Bank's published Balance Sheet.

The note issuing functions of the Bank were amended and extended by the *Currency and Bank Notes Act*, 1928, which came into force on Nov. 28, 1928. Under that Act the Bank of England assumed liability for the Currency Note issue of the Treasury, and replaced the Currency Notes by its own new issues of £1 and 10*s.* notes. At the same time the Bank took over the assets of the Currency Note Redemption Account, to an extent equal to the liability it had assumed in respect of the Currency Note issue. By the above Act, the fiduciary note issue of the Bank (*i. e.*, the amount of notes issued against *securities* held by the Bank) was fixed at £260,000.000. Notes issued in excess of the amount of £260.000.000 were supported, pound for pound, by gold held by the Bank.

The Currency Bank Notes Act, 1939, came into force on March 1, 1939. Its main provisions were: (*a*) The fiduciary issue was fixed at £300,000,000. (*b*) The assets of the Issue Department (including gold and securities) were to be valued weekly at prices agreed upon by the Treasury and the Bank of England, any differences resulting from such revaluation being adjusted by the transfer of gold to or from the Exchange Equalisation Account. (*c*) The Issue Department was relieved of its obligation to issue notes in exchange for gold.

Under the Act of 1928 the form of the Bank Return was altered in order to afford material for a more exact understanding of the financial position than was possible under the old form of return. The following is the actual return for February 28, 1948 :—

Issue Department.

	£		£
Notes Issued—		Government Debt .	11,015,100
In circulation . .	1,233,382,129	Other Government Securities . . .	1,338,276,324
In Banking Department	116,865,704	Other Securities . .	699,386
		Coin other than Gold Coin	9,190
		Amount of Fiduciary Issue	1,350,000,000
		Gold Coin and Bullion (at 172*s.* 3*d.* per oz. fine) .	247,833
	£1,350,247,833		£1,350,247,833

Banking Department.

		£			
Capital		14,553,000	Government Securities .		256,759,079
Rest *		3,901,423	Other securities—		
Public Deposits † (including Exchequer, Savings Banks, Commissioners of National Debt, and Dividend Accounts) .		10,885,055	Discounts & Advances	10,158,392	
			Securities	31,278,737	
					41,437,129
			Notes		116,865,704
Other Deposits—			Coin		246,986
Bankers	292,710,719				
Other a/cs. ‡	93,258,701				
		385,969,420			
		£415,308,898			£415,308,898

* The rest (= undivided profits) is never allowed to fall below £3,000,000. Hence to that extent it is a Reserve Account.

† The deposits of the Government, being the proceeds of taxes, etc.

‡ The deposits of the Bank's private customers other than bankers.

Notes.—In the Issue Department, "Other Securities," £699,386 is an item comprising securities held by the Bank other than securities of the British Government, and includes a certain amount of commercial bills. The Government Debt of £11,015,100 is an old historic debt due by the Government to the Bank.

The amount of the Fiduciary Issue is £1,350,000,000, having risen to that figure from £300,000,000 in 1939. This rise has been made possible by virtue of Section 8 of the Bank Note Currency Act, 1928, which states that if at any time the Bank of England represents to the Treasury that it is expedient that the amount of the fiduciary issue shall be increased above £300,000,000 the Treasury may authorise the Bank to issue bank notes to such an increased amount and for such period not exceeding six months as may be deemed necessary. Any such authority by the Treasury must be laid forthwith before Parliament.

It will be seen, therefore, that though the note issue is mainly a fiduciary issue it is controlled strictly by Parliament.

The powers and functions of the Bank of England. (1) The Bank acts as banker to the Government. (2) It manages, *inter alia*, the issue and transfer of the various loans comprising the National Debt, Municipal Stocks, and some Foreign Loans. (3) Its £5, £1 and 10*s.* notes are the only legal tender notes in Great Britain and Northern Ireland. (4) The Bank holds the cash reserves of the other banks. (5) Fixes the "Bank Rate," which is practically the official ruling rate of the value of money in this country. (6) Transacts ordinary banking business for the public.

The Banking Department of the Bank is conducted upon lines similar to other banks, except that the most important among its customers are the Government and

the other bankers of the kingdom, and that no interest is allowed on deposits. The other bankers regard the Bank of England as standing in the same relation towards them as they themselves stand towards their own customers. They keep, on current account with the Bank, such portions of their resources as they wish to have ready to hand in case of need. The Banking Department is thus the "bankers' bank," and British credit depends to a very great extent upon the maintenance by the Bank of a sufficiently high reserve of gold coin and bullion to meet possible demands by the other bankers and the depositors generally.

Banking business is not, perhaps, very complex in principle. It has been reduced to rules of such uniform strictness that the routine admits of very little variation. The details involved in the daily work of a bank are, however, very voluminous, and this fact largely controls the methods of book-keeping employed.

A banker has been defined as a "dealer in money and instruments of credit." His chief business is to receive deposits of money, to conduct current accounts, to buy Bills of Exchange and sell Drafts. He undertakes to repay the balances standing to the credit of his customers' Current Accounts on demand, and the amounts to the credit of their Deposit Accounts at the expiration of an agreed time.

As a general rule, these balances in the aggregate show an average which is steadily maintained, and it is by lending at interest the greater part of this average aggregate balance that a banker makes his profit.

In view of a banker's obligation to repay a great part of the customers' balances on demand a sum representing 10 to 20 per cent. of his liabilities is usually kept instantly available either in cash (*i. e.* Bank of England notes or coin) or on current account with the Bank of England. The balance of the available cash is lent out or invested by the bank, due regard being paid to the safety of the security taken or the investment held. The chief modes in which this available balance is utilised are in: (*a*) Loans to Bill Brokers and others repayable on demand or at short notice; (*b*) the purchase of Government or Municipal Stocks or other "gilt-edged" investments; (*c*) the purchase of Bills of Exchange, which are regarded as one of the best forms of investment; (*d*) loans to

the bank's customers, and to other persons on approved security.

The two forms of investment, (*a*) and (*b*), being readily realisable in case of need form a banker's second line of defence in the event of sudden demands being made upon him.

Throughout the English-speaking world the greater part of a trader's receipts and payments are in the form of cheques. Consequently, bankers are obliged to effect an enormous number of entries to record the cheque transactions of their customers, and in order that the state of a customer's account may be ascertained at any time, the current accounts of all customers must be written up practically from hour to hour.

These are the main requirements which have influenced the system of book-keeping employed by bankers. The greater part of the staff of a bank is usually employed either in paying cheques and bills drawn on or domiciled at the bank by its customers, or in receiving and collecting cheques, bills, etc., paid in by its customers. The turnover involved by these two operations is usually greatly in excess of that arising from any other of the functions of a banker, and, of necessity, special book-keeping methods, inapplicable to the majority of businesses, are employed to record these multitudinous payments. But to record such transactions as lending or investing money, the purchase of securities, or the warehousing of valuable property, etc., the book-keeping of a bank does not materially differ from the methods already familiar to the student. In most of the larger banks the officials who pay out are distinct from those who receive money. This rule is adopted to prevent fraud by the bank officials, and to expedite the work of the bank. Only a small proportion of the cheques drawn by the business world are presented at the banks' counters for payment in notes or coin. The majority of the cheques are drawn in favour of persons who pay them into their current accounts for collection. Cheques received by London banks for collection are not presented for payment over the counters of the banks upon which they are drawn, but through the Bankers' Clearing House. All the principal London banks are members of the London Clearing House and are represented there by one or more "in-clearing" clerks whose duty it is to ascertain, daily, how much each bank owes to, and is owed by, the other

banks comprising the association. It is the *balance* only due to or from any particular bank which is settled by the payment of money, and in London this is effected by a transfer order on the Bank of England, with which every Clearing Bank keeps an account.*

The clearing takes place daily at the London Clearing House. Cheques paid into a bank for collection are entered in specially ruled registers by the "out-clearing" clerks at the bank and handed to "in-clearing" clerks at the Clearing House. At the close of the clearing, the in-clearing clerk prepares a statement showing the position of his bank on the day's transactions in relation to the other Clearing Banks. A transfer form is then made out in conformity with the result shown by the statement, initialled by the inspector, and taken to the Bank of England, in whose books the necessary adjusting entries are made.

The Slip System of Ledger Posting

This is not a system of book-keeping, but a method of rapidly posting books kept on double entry principles.

In the majority of banks, posting in the main Ledgers is effected to a great extent from **Slips**, and not from Journals and Cash Books as in ordinary commercial houses. It is essential that the Current Accounts of customers should be kept posted throughout the day, and seeing that the Cash Books and Journals are in constant use, and even when available for posting can only be used by one ledger-keeper at a time, a more expeditious method of posting becomes necessary.

The posting slip is a small piece of paper containing an instruction to debit or credit a particular sum of money to a named Ledger Account; it is thus in essence one half of a Journal entry.

In the ordinary form of Journal the two parts of each double entry are written on consecutive lines on the same page, successive entries following each other until the page is full. It would be quite feasible for a book-

* It should be mentioned that many large provincial towns have local "Clearing Houses," the settlements being effected in a similar way to that described above by transfer on the local branch of the Bank of England.

keeper to use a fresh page for each Journal entry, and also to go a step further, tear away the binding and reduce the Journal to a series of loose leaves, each containing the record of one double entry. If, in an office, there are many Ledgers to be posted and only one Journal is used for original entries, delay must always occur in the posting; and the delay would be intensified, and confusion and disorder ensue in a busy office where many Journals and Cash Books were employed, each containing entries to be posted to one or other of the numerous Ledgers. But when a Journal is split into loose leaves, each containing a single entry, each ledger-keeper can be supplied with the particular Journal entries relating to his Ledger and can proceed with his posting unhindered by his fellow clerks. Such loose leaves, whether they form a Journal or a Cash Book (for the same methods can be applied in either case) are called "slips." They are used extensively in bank book-keeping, and also in other mercantile businesses where the volume of transactions is very great, *e. g.* in large soft goods warehouses. In some cases the debit and credit entries necessary for any given transaction are entered not on one but on two slips, the debit entry on a slip of (say) blue paper, and the credit entry on (say) a white slip. This practice permits an even more complete distribution of the work. Where slip posting is employed the various slips must be collected, arranged in bundles, and preserved for future reference.

The following specimen debit and credit slips for a transaction which would otherwise be journalised will illustrate the use of posting slips. The transaction is a simple transfer between two Ledger Accounts, viz. a transfer from a customer's Current Account to his Deposit Account, and the principle is the same whatever the nature of the transaction.

Example.—C. Warren transfers £100 on January 10, 19—, from his Current Account with The Bishopsgate Banking Company, Limited, to his Deposit Account.

B. B. CO., LTD

THE BISHOPSGATE BANKING COMPANY, LIMITED.

396, ST. HELEN'S PLACE, E.C.
Jan. 10, 19—.

Debit — CHARLES WARREN, Current Account for transfer to Deposit Account.

C. J. L.
£100 : 0 : 0 — *Accountant.*

THE BISHOPSGATE BANKING COMPANY, LIMITED.

396, ST. HELEN'S PLACE, E.C.
Jan. 10, 19—.

Credit — Deposit Account, CHARLES WARREN L/R No. 80642 transfer from Current Account.

£100 : 0 : 0

O. J. L.
Accountant.

The slips illustrated above are made out in the bank itself, by members of the clerical staff, and not by the customer interested, but in the case of cheques drawn by customers, and amounts paid in for their credit *the original cheques or paying-in slips made out by the customer are used by the bank as slips for the purposes of Ledger posting.* The employment of original documents in this way saves the staff labour and reduces the possibility of fraud and error.

In bank book-keeping, the majority of entries are those which in an ordinary business would be entered in the first instance in the Cash Book; *e. g.* all cheques paid necessitate credit entries, and remittances from customers debit entries in the Cash Book. It is to entries of this nature that the slip system is primarily applied. Entries which do not involve a debit or a credit to cash are less numerous, but in some cases the slip system is used for these also, and in others bound Journals of the customary type, more or less specially ruled. From the slip accompanying or authorising the cash receipt or payment, the cashier makes a debit, or a credit, entry in his Cash Book, and at the same time he initials or marks the slip to show that he has received, or paid, the money. The slip is then handed to the ledger-keepers and posted to the credit, or the debit, of the particular Ledger Account indicated. Thus the double entry is completed, and the slip, having served its purpose, can be filed.

In actual banking practice the cashier does not always debit, or credit, cash direct in the principal Cash Book, but usually in a subsidiary, or counter, Cash Book, the totals of which are incorporated at the end of the day in the principal Cash Book. This practice involves no difference of principle. Similarly, when the cashier has done with the slip he does not as a rule pass it direct to the ledger-keeper but to a " waste book," or an analysis, clerk who in turn hands it to the ledger-keeper. The Waste

Book * or **Received Day Book** is a subsidiary book in which receipts are analysed under suitable headings according to their nature for the sole purpose of facilitating their collection. In the every-day work of a bank all sums paid in by customers for collection are accompanied by **paying-in slips,** ruled according to the custom of the particular bank and supplied in bound sets by the bank to its customers. On these paying-in slips the customer makes a list of the cheques, notes, coin, postal orders or other forms of money paid in by him, and in due course the total of each of the paying-in slips is credited to him in his Pass Book. The *original slips* made out by the customer are the posting slips utilised by the bank for the purpose of its own book-keeping, and from them the necessary entries are made, viz a debit entry to cash by the cashier, and a credit entry in the customer's Ledger Account by the ledger-keeper. When paying in money on Current Account it is wise to have the counterfoil of the paying-in slip book initialled by the receiving cashier. A specimen paying-in slip is given on p. 497.

This slip embodies the following transaction—

L. Cuthbert Cropper pays in to his bankers on Dec. 31, 1931, the sum of £91 3*s*. 2*d*. made up as follows: Silver coin £25, copper £1 10*s*., £1 notes, £15, and three cheques on other Banks £25 10*s*., £6 18*s*. 6*d*., and £17 4*s*. 8*d*.

Turning to the other side of a customer's transactions with his banker, almost all the payments made by the bank are made against cheques drawn by its customers, but as already stated the greater number of the cheques drawn on a bank are presented at the bank's desk in the Clearing House, and a relatively small number only are paid by the cashiers over the counter. Every customer of a bank is provided with a book of cheques bearing impressed 2*d*. stamps. Towards the end of the cheque book a printed application form for the supply of another cheque book is incorporated. This form must be signed by the customer before a new cheque book is issued to him. The original application form for a fresh supply of cheques is used as a debit posting slip for the cost of the stamps on the cheques.

The original cheques drawn by the customers of a

* The functions of the waste book have disappeared in ordinary commerce, as the student is already aware. The name is still, however, employed in the banking world.

PAYING-IN SLIP

CURRENT ACCOUNT.

NATIONAL PROVINCIAL BANK LIMITED.

Dec 31st 19..

CREDIT

	£	s.	d.
£1 Notes	15	.	.
10/- do.			
Gold			
Silver	25	.	.
Copper	1	10	.
	41	10	.
£5, £10, etc., Notes			
Postal Orders			
Cheques			
T. Smith	25	10	.
R. Brown	6	18	6
A. Goodwin	17	4	8
Paid in by £	91	3	2

CURRENT ACCOUNT.

NATIONAL PROVINCIAL BANK LIMITED.

December 31st 19..

CREDIT L. Cuthbert Cropper

Spencer House, South Place, E.C.2

	£	s.	d.
£1 Notes	15	.	.
10/- do.			
Gold			
Silver	25	.	.
Copper	1	10	.
	41	10	.
£5, £10, etc., Notes			
Postal Orders			
Cheques	25	10	.
	6	18	6
	17	4	8
Paid in by £	91	3	2

bank are used as posting slips and are debited in the customer's Ledger Account. The corresponding credit entry is made when the cheque is paid, either by the paying cashiers or through the clearing department, and this credit entry appears, of course, in the Cash Account. It may form part of a total, in common with all similar payments which have taken place on a particular day, and the paid cheque may pass through other hands besides those of the cashiers before being posted in the Ledger, but the principle that there must be a debit to the customer and a credit to Cash Account, is not altered by these details. London bankers return all paid cheques to their customers, but this custom is not always followed by country bankers.

All customers' paid cheques, paying-in slips and debit and credit posting slips are passed, after posting in the Ledger, to the clerk whose duty it is to write up the Pass Books. Pass Books are thus written up from the original vouchers, and since they are compared with the Ledger before being handed out to the customers an additional check on the Ledger posting is secured.

The foregoing explanations afford an illustration of the subdivision of the work of a bank, the purpose being to obtain expedition and to ensure complete checks upon the work. It has been explained that the original paying-in slip is recorded first by the receiving cashier, then by the waste book clerk, then by the ledger-keeper, and is finally handed to the pass-book clerk to be entered in the Pass Book to which it refers. Thus all these members of the staff check one another's work. Similarly payments are entered from the cheque itself by (*a*) the keeper of the supplementary Cash Book, (*b*) the keeper of the Paid Cash Book, (*c*) the ledger-keeper, and (*d*) the clerk in charge of the Pass Books. As a further safeguard the ledger clerks in many banks periodically exchange ledgers.

The following particulars explain the general scheme of the book-keeping of a bank, although in different banks difference in detail will be found. A **General Ledger** is kept containing accounts for each type of asset and liability and for profits and losses. This Ledger is self-balancing, *i. e.* its Trial Balance when extracted shows debit and credit totals which agree. The General Ledger may be called the key ledger of the bank. It provides a bird's-eye view of the whole of the bank's financial position, and is usually written up daily. In the General

Ledger only one "total" or "adjustment" account appears, in many instances, as representing the total of large numbers of individual accounts kept in one or more subsidiary ledgers, *e. g.* as a general rule one account only will be found in the General Ledger under the heading of "Current Accounts" showing the *total* due by the bank to its current account customers. A ruling of the "Current Accounts Account" in the General Ledger is given on this page. The Bank may employ thirty or more Current Account Ledgers all ranking together in its system as subsidiary ledgers containing the details composing the one "Current Accounts Account" in the General Ledger. The balance of the account in the General Ledger thus equals and replaces the multitudinous balances appearing in the subsidiary ledgers. In addition to these Current Account Ledgers, there are numerous other subsidiary ledgers grouped round the General Ledger. These ledgers contain the detail accounts of the bank's assets and liabilities arranged according to the ordinary banking form. The balances shown in any one, or in any group, of these subsidiary ledgers, if totalled together, must agree with the "total" balance shown in the General Ledger Account relating to the particular subsidiary ledger or ledgers. For example, one **Investments** Account in the General Ledger will show the total investments of the bank at any time. **Loans, Bills Discounted, Deposit Accounts** and so on, are each similarly represented

GENERAL LEDGER—CURRENT ACCOUNTS

Date.	Particulars.	Credits. £	s.	d.	Balances. £	s.	d.
19— June 3	Received Cash Book						

by one "Total" Account in the General Ledger. The method of constructing Total or Adjustment Accounts in ordinary commercial book-keeping has been explained in Chapter XVII, and the student will be wise to refresh his memory by reperusing that chapter in this connection; for though minor differences may occur in practice the principles stated there are identical with those adopted by banks.

In order to disclose the variation in the bank's financial position, the Trial Balance of the General Ledger is frequently extracted daily. In the case of a bank possessing a head office and branches, the head office and each branch will possess a General Ledger of the description explained above, showing in summarised form the daily position of the head office or the branch. The usual subsidiary ledgers and registers will be kept, in every case, at the office concerned, explaining and working up to their respective "total" accounts in the head office, or branch, General Ledger. In addition to the foregoing a separate and independent self-balancing ledger is commonly kept at the head office showing the combined position of the head office and all the branches of the bank, *i. e.* the financial position of the bank as a whole. This latter ledger partakes more of the nature of a periodical summary than an ordinary ledger, and is written up from the returns transmitted to the Chief Accountant at the head office by the ordinary head office or branch book-keeping staff. Its form varies in different institutions although its object is the same.

It is now possible briefly and generally to outline the method followed in dealing with payments in and out, by or to the bank's customers.

RECEIVED (COUNTER) CASH BOOK

Money.			Notes.	Name.	Total of Credit.		
£	*s.*	*d.*			£	*s.*	*d.*
60	10	6	£50 10/5 327628/37	Higgins Bros.	110	10	6
5	0	0		Morrison & Co.	105	0	0

NOTE.—The first entry represents a payment in of £110 10*s.* 6*d.* (£60 10*s.* 6*d.* coin and £50 in notes). The second entry represents a payment in of £105 (£5 in notes and £100 in cheques); it will be noticed that the *cheques* received are included in the Total column but are not stated separately in this book.

Each receiving cashier is provided with a **Counter Cash Book** to record his receipts from the customers of the bank. This book is ruled as follows, and is written up as the deposits are received by the cashier (p. 500).

The receiving cashier places in his till any gold, silver, or copper coin paid in by the customer; he passes on to a Waste Book clerk, seated immediately behind him, the customer's original paying-in slip, together with the notes or cheques attached to it. The Waste Book clerk is provided with a species of analysis book known as a **Waste Book** or **Received Day Book** containing columns for the analysis of the different forms of notes and cheques, according to the manner in which they will be collected by the bank. All cheques, bank notes, etc., paid in by customers are recorded and classified in this Waste Book, according to their nature, before being entrusted to the various departments of the bank whose duty it is to obtain payment of them. The Waste Book thus acts as a check both on

WASTE BOOK (RECEIVED DAY BOOK)

Name.	Total Amount.			DETAILS. Town Clearing.			Metropolitan Clearing.			Walks.			Bank and Country Notes.			Bank of England.			House (own) and Country Cheques.			Money.		
	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
Higgins Bros.	110	10	6										50	0	0							60	10	6
Morrison & Co.	105	0	0	10	0	0	20	0	0	10	0	0	5	0	0	30	0	0	30	0	0			

NOTE.—The entries given above correspond to those given in the Received Cash Book. The £100 in cheques paid in by Morrison & Co. have been analysed according to the Bankers upon whom the cheques were drawn, viz. £10 Town Clearing, £20 Metropolitan, £10 walks, £30 Bank of England cheques, and £30 country cheques.

In some forms of Waste Book the money and Bank notes entered on the paying-in slips are not recorded, the book being restricted in its use to the *cheques* paid in.

PAYING CASHIER'S COUNTER CASH BOOK

(Supplementary Paid Cash Book)

Total. £	s.	d.	Name.	Numbers of Bank notes.	Amount of Notes. £	s.	d.	Money. £	s.	d.
35	0	0	C. Wrayson	22621/3 3/5	15	0	0	20	0	0
5	0	0	W. Higgins					5	0	0
10	0	0	C. Meyer	13298 1/10	10	0	0			

the receiving cashier and the various collecting departments. The usual form is as shown on p. 501.

After entry in the Waste Book, the customer's paying in slip parts company with the notes and cheques. The slip goes direct to the ledger-keeping department for entry on the credit side of the customer's ledger account; the Bank of England notes are handed to the proper department to list and pay in for the bank's credit at the Bank of England; and the cheques are distributed amongst one or more clearing departments for presentation either at the clearing house ("clearing" cheques), or at the office upon which they are drawn ("walks" cheques).

To turn to the other side of a bank's dealings, viz. the payment of cheques.

Each cheque paid over the counter is entered by the paying cashier in his **Paid Cash Book,** details being recorded of the form in which the money was paid When the whole or a portion of the cash drawn in payment of a cheque consists of bank notes, the paying cashier records the numbers of the notes either in his counter Cash Book or on the back of the cheque. The ruling of this book is shown on this page.

The balance of cash with which the cashier begins each day is recorded at the head of the day's entries in this book or in a supplementary book.

GENERAL CASH BOOK

Cash Dr.	Folio.	£	s.	d.	£	s.	d.		Folio.	Cash Cr. £	s.	d.	£	s	d
To Current Accounts								By Current Accounts							
„ Deposit Accounts								„ Deposit Accounts							
„ Bills Account								„ Bills Account							
„ Interest								„ Clearing							
„ Commission								„ Balance							
„ Balance forward from previous day															

DAILY BALANCE

	£	s.	d.		£	s.	d.
Cash Balance (Money and Notes)				Paid Cash Book			
Received Cash Book				Discount Cash Book			
Received Discount Cash Book				Clearing			
				Walks			
				Money			
				Notes			
				Bank of England Cheques			
				Cheques unpaid			

Customers' cheques paid through the Clearing House are entered in a **Clearing Book,** against which are offset, on the other side of the same book, all clearing cheques received for collection by the bank in question from its own customers. From a **Summary** or **Balance Book** of this description the balance to be paid or received through the Clearing House is ascertained. All cheques, whether paid over the counter or through the clearing, pass to the ledger-keepers of the bank to be debited to the customers by whom they were drawn.

At the end of each day a complete summary of the day's cash transactions is entered up, from slips supplied by the various departments, in a general Cash Book or **Cash Balance Book.** The agreement of this book marks a distinctive point in the day's business. A further general daily summary of the whole of the bank's transactions is made out, to which the totals of the cash receipts and payments shown in the Cash Balance Book are carried, together with the totals of all Journals used. This **daily summary** forms, in point of fact, one comprehensive Journal entry, in totals, for the whole of the day's transactions, and from it the **General Ledger** is written up.

Forms of General Cash Book and Daily Balance are given on p. 503.

ALFRED VERNON, 345, HOUNDSDITCH, E.C.

CURRENT ACCOUNT LEDGER (Ordinary Form)

Date.	Details.	Fo.	Dr.			Cr.			Balance whether Dr. or Cr.	Balance.		
19—			£	*s.*	*d.*	£	*s.*	*d.*		£	*s.*	*d.*
June 30	By Balance ...	√				600	0	0	Cr.	600	0	0
Dec. 7	To C. 1124, self		602	5	0				Dr.	2	5	0
" 9	By Cash					5	0	0				
" 9	" Country Cheques ...	325				160	0	0	Cr.	162	15	0
" 31	To Balance carried down	√	162	15	0							
		£	765	0	0	765	0	0				
19— Dec. 31	By Balance brought down	√				162	15	0	Or. *	162	15	0

* This column may be omitted if desired, in which case credit balances are entered in black ink and debit balances in red ink.

The ruling of the ledgers of a bank follows ordinary principles, but it will be found in many instances, notably in the case of the Current Account Ledgers, that

the debit and credit money columns are placed side by side instead of upon opposite pages. A "balance column" is often added for the continuous insertion of the balance of the account. Extra labour is required to extend the balance of the account in the balance column at the close of the entries for each day, and in some instances, therefore, the balance column is not used. But the column has very great utility, and it is generally considered worth while to employ one. Additional columns are also often included in Current Account Ledgers to show the interest allowed on customers' daily balances. In the great majority of accounts no interest is allowed, the use of the balance by the banker being generally held to produce little more than a fair return sufficient to cover the expense of keeping the account and

ABEL HAYGATE, BROMSGROVE NURSERIES, CHELVEDON.

CURRENT ACCOUNT LEDGER (Form for Interest Bearing Accounts)

Date.	Details.	Foi.	Dr.			Cr.			Nature of Balance (Dr. or Cr.)	Balance.			Interest.					
													Days.	Product.	Rate.			
			£	s.	d.	£	s.	d.		£	s.	d.				£	s.	d.
19— Dec. 31	By Balance					1,250	10	2	Cr.	1,250	10	2	10	12,510				
19— Jan. 10	,, Cash					100	0	0		1,350	10	2	7	9,457				
,, 17	To A. 34296, Brown		5	0	0													
,, 17	,, A. 34297, Jones		8	8	1					1,337	2	1	14	18,718				
,, 31	,, A. 34298, Higgins		500	0	0					837	2	1						
,, 31	By Interest					1	13	6		838	15	6			1½	1	13	5
,, 31	To A. 34299, Self		838	15	6													
			£1,352	3	7	£1,352	3	7						40,685				

The above is an example of a Current Account carrying interest on daily balances, the interest being credited to the customer on January 31, 19— when he withdrew the whole of his balance.

BILLS RECEIVED FOR COLLECTION REGISTER

("Short Bill Book." "Deposit Bill Journal")

Date received.	No.	Name of Sender.	Drawer.	Acceptor.	Date drawn.	Due Date.	Where payable.	Amount. £	s.	d.	Date paid.
19— Jan. 1	1056	C. Brown	A. Black	C. Grey	Nov. 10	Jan. 26	Bank of England	500	0	0	19— Jan. 26
,, 2	1057	O. Jones	M. Green	W. White	Oct. 5	,, 27	Lloyds Bank	1,627	4	8	

to provide reasonable profit. But with foreign banks, and in the accounts kept by foreign banks with London banks, interest allowances are not uncommon.

Two forms of Current Account Ledgers are appended. One is ruled without and the other with interest columns.

The Current Account Ledgers of a bank are, as has been stated, written up from the paying-in slips, customers' cheques, debit and credit slips, and Journals. The Current Account Ledgers, taken as a whole, work up to one "total" account called "Current Accounts" in the General Ledger, or, in some instances, the General Ledger may contain a separate total account for each Current Account Ledger. If only one account is kept in the General Ledger for the whole of the Current Account Ledgers one or more analysis books, or **Check Ledgers,** become necessary for the purpose of ascertaining the total balance of each separate Current Accounts Ledger. These analysis books are written up from the cheques, paying-in slips, etc., and thus form the connecting link between the separate Current Account Ledgers and the General Ledger. They contain in point of fact the control account for the Current

Account Ledgers, ordinary control accounts (see Chapter XVII) not being usually kept in the Current Account Ledgers themselves.

Some banks write up the Pass Book exactly as it appears in the customer's account in the Current Accounts Ledger. Others reverse the sides, placing the withdrawals on the credit and the deposits on the debit side. In the latter case the Pass Book is headed, e.g. *Lloyds Bank, Ltd., in account with John Smith,* in place of *John Smith in account with Lloyds Bank, Ltd.,* in the former case.

When customers remit Bills of Exchange to their bankers for collection they usually do so a few days before the bills mature for payment to enable their bankers to present them on the exact due date. Bills received by a banker for collection are entered in a **Bills for Collection Register** or **Short Bill Journal,** the form of which is given on p. 506.

Some bankers keep no further record of bills received for collection, and exclude them from their book-keeping system, but others bring them in. The entries made in the latter case are: (*a*) A *debit* to an Asset Account called **Bills for Collection Suspense Account.** (*b*) A *credit* to a Suspense Ledger Account opened under the name of the customer in a separate **Bill Ledger.**

When bills for collection are paid, the proceeds are credited to the customer's Current Account, and reversing entries are passed

BILLS RECEIVED FOR DISCOUNT REGISTER

Date received	No.	Seller.	Acceptor.	Drawer.	Term.	Where payable.	Fol.	Amount. £	s.	d.	Due Date	Days to run.	Rate.	Discount. £	s.	d.	How disposed of.
19— Nov. 18	1027	C. Brown	W. Lord	M. Hills	6 m/d	Midland		100	0	0	19— Jan. 5	48	5%	0	13	2	Paid
,, 30	1029	M. Hay	C. Probyn	S. Sharp	6 m/s	Lloyds		500	0	0	April 4	125	5%	8	11	3	Paid

in the Bills for Collection Account and in the Bill Ledger Account.

Bankers are always willing to discount (*i. e.* purchase) Bills of Exchange from their customers, provided the parties to the bills are of sufficiently good standing and the customer's reputation is satisfactory. Usually a banker requires his customer's endorsement on the bill whether payable to him or not. It is not the practice of British bankers to discount bills of more than six months tenor. The business in foreign bills is chiefly conducted by Bill Brokers and foreign bankers. The rate of discount deducted by a banker varies according to (*a*) the standing of the parties to the bill, (*b*) the market value of loanable capital at the time, and usually bears a fixed relation to the current "bank rate." * In making his book-keeping entries a banker debits the full face value of the bill to his **Bills Discounted Account,** and credits the discount deducted to his **Discount Account,** instead of making a single debit to Bills Discounted Account for the net cost. This affords greater clearness and facilitates reference, and the passing of the necessary entries when the bill matures. Since a banker, when he purchases a bill, credits to his Discount Account the whole of the discount charged, he must make a reserve should his Profit and Loss Account be made out at a date before the bill matures. This reserve appears in the accounts as **Rebate on Bills not due** (see p. 561). As soon as he discounts a Bill a banker enters it in his **Bills Received for Discount Register,** the form of which is given on p. 507.

In addition to this he keeps a careful record of—

(*a*) The bills discounted for each customer, in order that the amount advanced to a given customer may not exceed the limits of safety,

and (*b*) The name of the acceptor and the amount of each bill, so that too much of a given acceptor's "paper" may not be purchased.

The former details are kept in a **Discount Ledger,** in accounts headed with the name of each customer, and the latter in an **Acceptors (or Upon) Ledger** in accounts headed with the name of each acceptor. The form of

* The minimum rate charged by the Bank of England for discounting approved Bills. The rate is fixed every Wednesday by the Bank Court.

a Discount Ledger is given below, and the ruling of an Acceptors Ledger is similar.

When paid, the amount of a discounted bill is credited to the Bills Discounted Account and debited to Cash Account. All bills, whether discounted or held for collection, are given distinctive numbers as soon as they come into the bankers' hands, different series of numbers being used for different kinds of bills. **Bill Diaries,** in which bills can be entered under their due dates, are indispensable to a banker. Bills are usually sorted in order of their maturity dates, bills of the same due date being kept together in one pocket of a leather **Bill Case.**

NAME OF CUSTOMER : S. SOUTH, 246, FINSBURY CIRCUS, E.C.

BILLS RECEIVED FOR DISCOUNT LEDGER

(Discount Ledger)

Date received.	No.	Acceptor.	Drawer.	Due date.	Amount Dr.			Amount Cr.			Balance.		
19—					£	s.	d.	£	s.	d.	£	s.	d.
Nov. 16	364	C. East	W. West	Dec. 16	1,241	10	0				1,241	10	0
Dec. 16	”	Paid						1,241	10	0			

The annual published accounts of a bank are given in Chapter XXIV, together with some comments as to the form and composition of such statements.

The reader must here understand that the foregoing description of a bank's book-keeping system is correct in principle, and it is possible that there may still be branches where it is followed in full detail. However, the increasing introduction over many years of labour-saving devices and machines has in most banks resulted in such changes of detail and routine that, though the underlying principles are unaltered, an inspection to-day of the actual records at any of the larger banks would disclose a state of affairs not easy at first sight to recognise from the description given. Unfortunately, it is not practicable to give here a full description of a mechanised system, for various reasons : (1) To describe in detail a fully mechanised system would take up far more room than is available. (2) The system probably varies somewhat in detail as between one bank (including its branches) and another. (3) The degree of mechanisation will certainly

vary in different branches of the same bank, the larger and more important branches being more or less fully mechanised and the smaller ones (*e.g.* in the smaller country towns) less so, and in some cases possibly not at all. (4) Even at points where the system may be identical (as between different banks), the terminology tends to differ (an instance of this is given on p. 511).

From the customer's point of view, the progress of mechanisation is clearly reflected in his "Pass Book." The writer knows of one provincial branch where the old-fashioned Pass Book, in book form, is still in use, and this, of course, has to be written up by hand. This, however, is now (in 1949) extremely rare: it is almost universal for the Pass Book to be replaced by loose sheets, which the customer retains (the books had to be returned periodically to the bank for writing up). The sheets may be either written up by hand, or typed; if typed, the typing may be done as a separate operation (copying from the Ledger Account) or (if the Ledger itself is on the loose-leaf principle) each entry on the "Pass Book" sheet may be a carbon copy of the actual Ledger entry, made at the time the Ledger is posted. In any event, the old form of "single-cash" ruling has almost completely disappeared; the modern form of Pass Book is a sheet with one column for the date, one for description of the item (whether a debit or credit is immaterial), and three money columns, for debits, credits and balance respectively. None of the columns shows any totals, and it is usual to type in the "balance" at the end of each day on which any entry in the account has been made. Since the balance is invariably shown on the Ledger Account itself, it appears automatically on the Pass Book sheet if this is made up of carbon copies of the ledger entries.

Although a full description cannot be attempted, it is thought worth while here to give some account of how cheques and coin—the daily "bread-and-butter" of the bank's business—are dealt with in a typical mechanised system. The necessary "double entry," or agreement of the original figures, is effected by the use of a "control machine" (in one at least of the big banks the machine is called by this name). The machine consists in effect of a double adding-machine, with a space for typing any necessary descriptive details. There are two money columns—the debit and the credit—each being added independently (the machine is, of course, power-operated,

and any desired totals or sub-totals are shown by pressing the appropriate key). The underlying idea is that every single transaction has a debit aspect and a credit aspect. The debits and the credits are passed independently through the machine (" posted " from the appropriate " slips "), and if everything is correct the total of the debits arising from one transaction will be equal to the total of the credits, and therefore the total debits from all transactions, within a given time, will equal the total credits within the same time. The machine is not normally " cleared " till the end of the day, but sub-totals are struck frequently, and they should always agree. The moment any disagreement appears the cause must be searched for and located forthwith and the error corrected.

Let us suppose the transaction to be recorded is a " payment-in " by Mr. A. Smith for the credit of his Current Account. Smith will have made out a " Paying-in Slip," on which he will himself have recorded, under separate printed headings provided, the amounts respectively of currency notes (£1 and 10*s.* separately), silver, copper, postal orders and cheques, the latter being listed in detail as to amounts but omitting any records of names or (usually) the banks on which they are drawn. The cashier retains the Paying-in Slip; he places the notes and coin in their respective tills and makes out on a small slip of paper a note of the amounts; (this slip is known in one of the big banks as a " meat ticket," which it somewhat resembles in size). The actual cheques paid in, accompanied by the meat ticket and Paying-in Slip, are then passed to the control operator: the " total " shown by the paying-in slip is entered on one side of the control, and the amounts of the cheques and the figure shown by the " meat ticket " are entered in detail on the other. Normally the figures will balance: if, however, Mr. Smith should have made a mistake in adding up his paying-in slip, the fact will be disclosed by an " unbalance " in the control, and the discovery of this fact will necessitate the slip being checked and corrected. This procedure ensures the correct credit being made to Smith's Ledger Account.

If Mrs. Brown cashes a cheque over the counter, the cashier retains the cheque and enters on another slip details of the notes and coin paid out. This slip and the actual cheque are recorded on the control similarly.

Payments by a customer by means of cheques drawn on other banks reach the customer's bank through the clearing house. The actual cheques will be accompanied by a list, and in the control the total of the list will be entered on one side and the amounts of the individual cheques (taken from the cheques themselves) on the other.

Similar principles are adopted throughout the whole of the bank's book-keeping. The "control" is made to deal, not only with individual transactions as illustrated above, but also with daily and periodical totals of every type of transaction whatever.

The published Balance Sheets of American banks are presented in a somewhat different form from that which is employed in this country, the Assets appearing on the left hand side of the Balance Sheet and the Liabilities on the right instead of on the reverse portions as adopted in British practice. In addition to this, many items appear under titles which are unfamiliar in this country. A specimen statement of a typical National (*i. e.* note-issuing) American bank is appended.

THE BANK OF COMMERCE (NATIONAL ASSOCIATION)
CLEVELAND, U.S.A.

Statement at the close of Business, September 1st, 19—

Resources		Liabilities	
Loans and Discounts ...	$9,973,571.90	Capital Stock	$2,000,000.00
Overdrafts	11,994.86	Surplus Fund	1,000,000.00
U.S. and other Bonds ...	2,786,400.41	Undivided Profits	671,872.33
Due from U.S. Treasurer	89,275.00	Circulating Notes	1,048,250.00
Due from other Banks ...	3,293,702.13	Deposits	13,654,308.52
Cash	2,909,986.55	Bond Account	690,500.00
	$19,064,930.85		$19,064,930.85

22A.

1. What are (*a*) debit slips, (*b*) credit slips? Make out the debit and credit slips necessary to transfer £1,000 from your Current Account at the Lothbury Bank to your Deposit Account.

2. Trace the history of a cheque drawn by a customer on his Current Account, assuming that it is presented at the bank's counter for payment in cash.

3. Trace the history of the cheque mentioned in Question 2, assuming that it is presented for payment through the Clearing House.

4. I pay a crossed cheque for £10, drawn on the Blankshire Bank, and Bank of England notes for £20 into my Current Account with the Yorkshire Bank, Ltd. Trace the subsequent history of these items.

5. What is the purpose and use of a paying-in slip?

6. Show the connection between the Current Account Ledgers of a bank and its General Ledger.

7. From what materials are the Current Account Ledgers of a bank written up?

8. What does a customer's Pass Book contain, and how is it written up?

9. Explain the following terms: Paying Cashier, Cash Balance Book, Goldsmith's Book.

22B.

1. Explain briefly the business of a banker as conducted in this country.

2. In what modes are cheques drawn on a bank by its customers presented for payment?

3. Explain what is meant by the Bankers' Clearing House.

4. Explain what is known as the "slip" system of posting as applied to the accounts of a bank.

5. How does a bank make its profits?

6. Comment on the following statement: "Money paid into a bank is locked up in the banker's strong room until the depositor calls to withdraw it."

7. Explain the following terms: Receiving Cashier, Town Clearing, Walks Cheques, the Waste Book.

8. What is a General Ledger of a bank? What position does it occupy in a bank's system of book-keeping, and what does it show?

9. What is a Receiving Cashier's Counter Cash Book, and how is it ruled?

22C.

1. I paid into my Current Account at Lloyds Bank, Ltd. on January 16. 19— the following, viz.—

	£	*s.*	*d.*
Silver Coin	5	10	0
Bank of England notes	10	0	0
Cheque on the Bank of England	5	0	0
Town cheques on various Banks	25	0	0
Cheque on Lloyds Bank, Ltd.	5	0	0
	£50	10	0

Rule the following forms and enter therein the foregoing items as far as the various forms are concerned—

1. Paying-in slip.
2. Receiving Cashier's Counter Cash Book.
3. Received Waste Book.
4. Bank of England Book.

2. I drew a cheque on my Current Account for £50, which I presented for payment at the bank's counter, taking £5 in silver, 20 £1 notes, and the remainder in £5 Bank of England notes. Rule a form of Paying Cashier's Counter Cash Book and enter in it the foregoing transaction.

22D.

1. On January 16, 19—, I opened a Current Account with the Commercial Bank, Ltd., paying in £300 in Bank notes. I

obtained a book of 25 order cheques, for which the bank debited me with 2*s.* 1*d.* for the cost of the Revenue stamps. I drew the following cheques: January 18, W. Brown, Ltd., £5 6*s.* 9*d.*; C. Harris, £18 4*s.* 2*d.*; January 31, C. Wray, £40. I paid in £80 on February 15 and £200 on March 28. I drew a cheque in favour of M. Harris & Co. for £150 on May 19, and one for £8 2*s.* 5*d.* on June 22 in favour of J. Jones, Ltd. From the foregoing particulars show my Current Account in the bank's Ledger, balancing it as on June 30, 19—.

2. From the details given in Question 1 show my Current Account to June 30, 19—, in the bank's Ledger, assuming that the Commercial Bank, Ltd., agreed, when opening my account, to allow me interest at 2 per cent. per annum on my daily balance, interest to be made up to, and credited on, June 30 and December 31 in each year. Assume that all cheques drawn and remittances paid in were cashed on the date of drawing or payment in.

3. Make out my Pass Book according to the details given in Question 1, balancing it as on June 30, 19—.

22E.

From the following particulars prepare the Profit and Loss Account of the Surrey Banking Co., Ltd., for the year 19—, and Balance Sheet as on December 31, 19—, in proper form for publication.

	Dr. £	*s.*	*d.*	Cr. £	*s.*	*d.*
Share Capital—100,000 shares of £10 each. £5 per share paid up				500,000	0	0
Reserve				1,000,000	0	0
Cash in hand	100,000	0	0			
Bank of England, Current Account	900,000	0	0			
Bills Discounted	2,200,000	0	0			
Current and Deposit Accounts				10,000,000	0	0
Short Loans	2,185,000	0	0			
Loans to Customers	3,200,000	0	0			
Gross Profits				235,000	0	0
Interest paid	60,000	0	0			
Expenses	80,000	0	0			
Profit and Loss Account Balance from last year				120,000	0	0
Dividend paid, Jan. 16, on account of last year's profits	80,000	0	0			
Consols £2,000,000 at 77 per cent.	1,540,000	0	0			
Other Investments	1,230,000	0	0			
Reserve of Rebate carried forward to next year				20,000	0	0
Bank Premises	300,000	0	0			
	£11,875,000	0	0	£11,875,000	0	0

22F.

From the following particulars prepare the Balance Sheet of the St. Osyth's Bank, Ltd., as on December 31, 19—, together with a Profit and Loss Account for the year, in proper form for publication :—

Share Capital paid up (£10 per share on 125,000 shares of £100 each) £1,250,000; Cash in hand and at Bank of England £2,873,000; Consols and other Government Securities £2,976,000; Reserve Fund £790,000; Due to customers on Deposit, Current, and other Accounts £14,888,000; Liability on acceptances for customers £803,000; Customers' liability for acceptances £803,000; Money at call and short notice £1,025,000; Rebate (Credit Balance) carried forward at end of year £27,000; Bills discounted £4,074,000; Loans and Advances on security £5,718,000; Bank premises £427,000; Profit and Loss Account, Balance from last year, £23,000; Gross profits for the year £375,000; Salaries, Income Tax, and all other expenses for the year including provision for Bad and Doubtful Debts £166,250; Dividends paid, June 30, £93,750.

Answers.—

22D. 1 & 3. Balance, June 30, £358 4*s*. 7*d*.
2. Balance June 30, £361 13*s*. 5*d*. (including Interest, £3 8*s*. 10*d*.).

22E. Net profit, £135,000; Balance Sheet totals, £11,655,000.

22F. Net profit, £231,750; Balance Sheet totals, £17,896,000.

CHAPTER XXIII

LIFE ASSURANCE ACCOUNTS

As long ago as 1826 distinction was made between the terms **Assurance** and **Insurance.** The former is now restricted to making provision for events which are *bound to happen*, such as death, and is confined to life assurance. The term "insurance" is applied to risks which *may or may not happen*, such as fire, shipwreck, accident, burglary, etc.

Life assurance is a contract evidenced by a document called the **Policy,** under which the assuring company, in consideration of certain agreed payments, called **Premiums,** undertakes to pay on the death of the **Assured,** or in certain other events, an agreed sum called the **Sum Assured.** In some cases a lump sum, called **a single premium,** is paid, and the policy is then **a fully paid policy.** In the majority of cases **annual premiums** are paid, but these may, by agreement, be paid in equivalent half-yearly, quarterly, or even monthly instalments. *Ordinary* Life Assurance premiums are paid quarterly, half-yearly, or annually, the sums assured rarely being under £50. *Industrial* Life Assurance premiums are paid weekly, or monthly, and the sums assured are sometimes as low as £1. Life Assurance premiums consist of: (*a*) A sum which represents the cost price of the risk to the Company. (*b*) Loading. *The cost price* * is ascertained by an actuarial valuation of the risk involved, and is calculated according to the average expectancy of life at different ages disclosed in **Mortality Tables.** The tables now in most general use are the **British Offices' Experience Tables** (indicated by the symbol O) which are based upon the experience of 1,037,233 assured lives, contributed by sixty British Life Offices. These tables

* **Also known as the pure or net premium.**

give the *average* duration of life for each age, or as it is termed the *expectation of life*—or, more correctly, the *Mean After-Lifetime.* The former term is frequently loosely and improperly employed, since the premium payable by any given person is not based upon his particular expectation of life, which cannot be foretold, but upon the average obtained from a large number of lives starting from the same age. The "expectation of life" is seldom the measure of the actual span of life in any particular case. The *loading* is the amount added to the cost price, or pure premium, to provide for (1) commission payable to agents for obtaining business, (2) expenses of management, (3) profits and bonuses, and (4) a margin for a possible increase in the future rate of mortality.

The *pure premium* plus the *loading* make up the *office premium* charged by the Company and paid by the assured.

Broadly speaking, there are two classes of Life Assurance Companies: (1) **Proprietary,** (2) **Mutual Companies.** A *Proprietary* (or *mixed*) *Company* is a joint stock company whose capital is subscribed in the ordinary way, the profits being divided between the shareholders and the participating policy holders in a ratio varying from 80 to 95% to the participating policy holders and the remainder to the shareholders. A *Mutual Company* is one which has no paid-up capital, and no shareholders, being composed of the policy holders themselves to whom the surplus profits belong.

The profits of an assurance company cannot be arrived at by ordinary accounting methods. They can only be determined by **Actuarial Valuation.** Some Companies prepare a valuation every year. But in other cases the valuation takes place, in accordance with the law, every five years, and is known as the **Quinquennial Valuation.** A few notes on general lines may serve to show the necessity for the Actuarial Valuation.

The principal object of the Actuarial Valuation is to determine, (*a*) the company's net liability in respect of all its policies and annuity contracts, and (*b*) the value of the amount of its Life and Annuity funds. On the one hand the assuring company has undertaken certain risks under its policies; on the other hand the policy holders have undertaken to pay, or have already paid, certain premiums to the company. In order to disclose at any

given date the financial position resulting from these two facts, it is necessary to ascertain (1) the present value of the company's risk on its total policies, and (2) the present value of the total premiums payable under the policies. The difference between the present value of the company's liability on its policies, and the present value of the premiums payable under those policies by the assured is the amount which must be reserved in order that, with the future premiums payable under the policies, the company may be able to discharge each claim as it falls due.

The rate of compound interest adopted by a company for its valuation calculations is of course a most important factor. The rate employed for the purpose has gradually decreased, in some cases to 3 per cent., or even to $2\frac{1}{2}$ per cent., whereas the interest actually earned by a company on its invested funds may be $3\frac{3}{4}$ per cent., or more. Again, the valuation of the liabilities is not necessarily made on the same basis as that adopted for the formation of the premium. The experience of the office itself in respect of mortality is taken into account, and this experience may be more or less favourable than that disclosed by the Mortality Table on which the premium was fixed. Hence the premiums adopted for valuation purposes may be called *Valuation Premiums*.

If the student will refer to the form of **Valuation Balance Sheet** given on p. 543, he will see that this total present liability, when arrived at, is disclosed in the valuation Balance Sheet, and against it is put the total of the Life Assurance Fund available to meet it. The difference between the total liability and the total available funds represents the **surplus,** or **deficiency,** as the case may be. The chief factors which enable an assurance company to show a surplus are : (*a*) a favourable mortality experience; (*b*) an economy in the expenses below the figure provided for in the "loading" included in the premiums; (*c*) the realisation of a higher rate of interest from investments than was anticipated; (*d*) profits from sundry sources, such as the sale of investments, etc.

It is only out of the surplus thus ascertained that an assurance company can distribute profits to its shareholders, or bonuses on its **With Profit Policies.** The bonus is expressed as a percentage on the sums assured. and commonly varies from 1 per cent. to 5 per cent. per

annum. In some cases it is stated as a percentage for the quinquennial period.

Beyond certifying to the amount of the Assurance Fund, neither the accountants nor the auditors of an assurance company have any concern with the quinquennial valuation, which is purely actuarial work.

Many different kinds of life policies are now offered to the public. The broadest line of demarcation is perhaps that between **without profit** and **with profit policies.** The former policies cover the payment of a fixed sum at death, or on the happening of some other agreed event; the latter a fixed sum and also the right to share any bonus distributions that may take place before the policy becomes a claim. *Without Profit Policies* can be obtained from most leading companies at practically identical rates, but the rates charged by companies for *With Profit Policies* vary considerably. The probability that the bonus rates will be maintained also varies. The stability of the bonus distribution is a matter for expert advice, and all that can be said here is, that, when the rate of interest earned is declining, and expenses are increasing at a ratio out of proportion to new business acquired, past rates of bonus are not likely to be maintained.

A person desirous of effecting an assurance must fill in a **proposal form,** the basis of the contract, with full particulars as to age, health and habits. Some details of family history, from the medical point of view, are also necessary. The utmost faith must be observed in furnishing these particulars or the policy may be rendered void. This form must be signed and declared to be true by the proposer, or by the person effecting the assurance if it refers to another. It is necessary in law that the person who effects an assurance on the life of another shall have an **insurable interest** * in the life, that is to say, he must be pecuniarily interested in the life as a creditor, employer, partner, or as the purchaser of a life interest or reversion. It may be mentioned here that the Act of 1909 (§ 36) considerably modifies the position of Industrial Assurance Companies with reference to "insurable interest," and that the *Friendly Societies Act* contains restrictions with regard to the insurance of infants.

* The Act of 1774 prohibits "gambling or wagering" by means of life assurance. In the middle of the eighteenth century gambling by means of life assurance became a public scandal.

An insurable interest is also necessary in the case of policies taken out to cover fire, marine, and other risks.

After medical examination has been passed, and the company has received satisfactory reports from two friends, the proposer is notified that his proposal has been accepted, and that the **first premium** will be payable within fourteen days. Subsequent premiums, called **renewal premiums,** are payable as stated in the policy.

Restrictions are sometimes attached to policies of assurance as to suicide, travelling abroad or by air or service in the armed forces; but some companies now issue policies "free" of all restriction without increase of premium.

When taking out a life policy the assured should get his age admitted *in the policy.* Production of a certificate of birth or baptism containing the date of birth is sufficient for the purpose. A proved innocent mistake in stating the age would necessitate adjustments when the mistake was discovered.

Assurance Companies are now governed by the **Assurance Companies Act, 1909,** and are also subject to the **Companies Act, 1948,** so far as that Act applies. The Act of 1909 calls for close attention on the part of the accountant, as the schedules appended to it prescribe new forms for the presentation of the accounts of assurance companies. Its chief sections are—

1. The Act refers, with slight exceptions, to all persons or Corporations transacting (*a*) Life Assurance, (*b*) Fire, (*c*) Accident, (*d*) Employers' Liability Insurance, and (*e*) Bond Investment business (§ 1).

2. Every company transacting life assurance business must now place a *permanent* deposit of £20,000 with the Paymaster-General of the Supreme Court. Such deposits were formerly necessary, in the case of British companies, under the *Life Assurance Companies Act,* 1870, but were returnable to the company when its life assurance fund accumulated out of profits reached the sum of £40,000. In addition to the above-mentioned regulation, all *new* companies registered after July 1, 1910, must deposit £20,000 for *each* class of business [(*a*), (*b*), (*c*), (*d*), and (*e*), as above], undertaken by them. There are a few exceptions to this rule, *e. g.* where associations of employers undertake employers' liability risks upon mutual terms (§ 2) or where the company carried on employers' liability insurance prior to August 28, 1907 (§ 33 (*d*)).

When the separate employers' liability fund has reached the sum of £40,000, the company may claim the return of the deposit of £20,000, provided a deposit has been made in respect of any other class of business. Similar regulations apply to companies transacting Bond investment insurance. The provisions relating to deposits do not apply to Fire, Accident or Bond Investment insurance business carried on by companies formed before the passing of the Act. When complying with the regulation as to deposits, permission is asked of the Board of Trade to lodge certain specified securities to the requisite value at the mean market price of the day. These securities must appear in the Board of Trade list of securities. If satisfied on these points, the Board issues a warrant to the Paymaster-General authorising him to accept the securities. If they are stocks inscribed with the Bank of England they are simply handed in; but registered stocks must be transferred, in the usual way, to the Paymaster-General. Lastly, an order of Court is obtained authorising the Paymaster-General to pay the dividends accruing upon the securities to the depositing company.

3. Separate Revenue Accounts must be presented for each class of business engaged in by the company, and for each class of business a separate fund must be kept. Each separate fund is the absolute property of the policy holders of that class and must not be appropriated to any of the company's other contracts (§ 3). Although, under the terms of this section, the various assurance funds must be shown as separate liabilities, it is not necessary specially to earmark a company's investments as being the property of any particular fund.

The allocation of the *Receipts* between the various classes of business does not present much difficulty since the premiums of each class are known, and the interest earned by the aggregate assurance fund can be divided proportionally to the amounts of the separate funds. But the disclosing of the amount of the Income Tax deducted from the income earned is a new feature, and will, in some cases, need provision in the books for its record. The allocation of the *Expenditure* of an assurance company is not so simple. Such items as "claims paid," "surrenders," and "commission" offer little difficulty, but there are many payments included in "expenses" which can only be arbitrarily allocated

amongst the various branches. Such items, for instance, as rent, rates, valuation expenses, lighting, stationery, depreciation, and, to some extent, salaries, can only be apportioned by means of estimates. These estimates are prepared by the company's staff and could be manipulated in order to bolster up unsatisfactory departments, the more so because the Fourth Schedule does not require the liability of each branch, when ascertained by valuation, to be set out separately. It is interesting from the professional accountant's point of view, to note that, at valuation dates, a certificate must be given "signed by the same persons as sign the Balance Sheet" to the effect that, in their belief, the assets set forth in the Balance Sheet are "in the aggregate fully of the value stated therein." On inquiry at the Board of Trade the author's firm were informed that the words "same persons as sign the Balance Sheet" do not in this case include the auditors; an interpretation which will be welcomed in the profession! But the auditors must certify that no part of the various funds has been applied directly or indirectly for any purpose other than the service of the particular class to which it applies. The Board also stated that this requirement does not apply to Life Assurance Companies pure and simple, even though both "industrial" and "ordinary" branches exist.

4. At the end of each financial year every company must prepare (*a*) A **Revenue Account** (First Schedule), for each particular class of business, (*b*) A **Profit and Loss Account** (Second Schedule), except in cases where one class of business only is carried on, and (*c*) A **Balance Sheet** (Third Schedule).

5. Once at least in every five years every assurance company must cause an **actuarial valuation** of its position to be made in the forms set out in the Fourth Schedule (§ 5). As, however, the section imposes no obligation upon a company to employ any particular basis for valuation purposes, or to disclose the separate liability in the several branches, it is not apparent how the regulation can afford protection to the policy holder against unscrupulous companies.

6. Every assurance company must present a statement of its business in the prescribed form (Fifth Schedule) at the date upon which the accounts are made up for the Quinquennial Valuation (§ 6).

7. All the accounts and statements required by the

terms of the Act must be deposited with the Board of Trade within six months after the close of the period to which such accounts relate (§ 7). But the Board may, under certain circumstances, grant an extension of time not exceeding three months. Shareholders and policy holders are entitled to copies of the accounts and statements so deposited (§ 8).

The remainder of the Act relates to audit, amalgamation, or transfers, winding up, penalties, exemptions, and various other matters not of immediate moment to the book-keeper.

The Revenue Account (First Schedule (A))

The student will note that the income and expenditure appear upon the reverse sides of the account to those upon which the double entry book-keeper would place them. Seeing that all accrued income and outstanding liabilities are dealt with in the account, it is in no sense a Cash Account. It is therefore to be regretted that the new form was not brought into line with modern accountancy. But this anomaly does not affect the internal book-keeping. The accounts in the General Ledger from which the Trial Balance is prepared, are closed into the Revenue Account upon the usual lines, and are only reversed for publication.

The first item on the debit side of the account is **The amount of Life Assurance Fund at the beginning of the year.**

This item is the closing entry of the Revenue Account of the previous year from which it has been brought forward. It represents the surplus of the company's assets over its liabilities, including reserves, apart of course from the liability to its policy holders, which, as has already been explained, can only be ascertained by actuarial valuation. In other words, the Life Assurance Fund represents the surplus which is available to meet the company's liability under its policies.

The wording of the statutory form of accounts suggests that the authorities contemplated the passing of all cash receipts on Capital Account through the Revenue Account. The practice of assurance companies is, however, to take all capital receipts, whether for original or fresh issues, direct to the Balance Sheet.

To this extent, therefore, the First Schedule is both a Capital and a Revenue Account. When the income and

expenditure applicable to the year have been dealt with in the manner provided by the Schedule a fresh Life Assurance Fund is arrived at, which forms the balance of the Revenue Account, and, in due course, appears in the Balance Sheet where the assets representing the Fund are set forth in detail.

Premiums.—The risk which an assurance company will undertake upon any one life is restricted in amount. No limitations can be given, as they vary with the nature of the risk and the financial circumstances of the assuring company. In some cases, therefore, it becomes necessary for a portion of the risks to be re-assured * with other offices. Some companies confine themselves to re-assurance business. The First Schedule of the Act stipulates that all receipts must be stated *net*. Therefore premiums paid to other offices for *re-assurances* must be deducted from the gross premium income of the company. Accounts are kept by the various companies of re-assurance business passing between them, and are usually rendered quarterly.

The item "premiums" appearing in the Revenue Account includes all premiums due but outstanding at the close of the year, excluding, of course, the premiums on such policies as may have **lapsed** during the year. Policies of life assurance become lapsed, or void, as a general rule when the premiums due thereon are more than thirty days † in arrear. In "Industrial" assurance, under the *Friendly Societies Act*, 1875, it is essential to send notice to policyholders, prior to lapsing their policies. The notice is to the effect that the premiums are in arrear and that "in case of the default of payment of the full amount due within sixteen days the policy will be cancelled and the interest and benefit therein forfeited." Care is taken by assurance companies that they may be in a position to prove the postage of this notice in

* Re-assurances are probably more numerous in the case of fire risks than in other departments. For example, the "A" company accepts a risk covering £5,000. As its "limit" for this class of risk is £3,000 the remaining £2,000 is re-insured with the "B" company. The latter company issues a "guarantee" that it accepts liability, in the event of a claim arising, for the same proportion of the claim actually paid as the amount re-insured with it bears to the amount of the policy.

† In fire insurance fifteen "days of grace" are usually allowed, and in other departments from seven to fourteen days of grace are allowed according to custom.

case of need. All notices are therefore numbered and duplicated and the numbers are recorded and initialled in the postage book. In "ordinary" branch assurance no notice of intention to lapse is legally necessary, but as a matter of practice a renewal notice is invariably sent as a reminder. In most cases a "lapsed" policy is capable of revival under certain conditions which vary with different companies.

In addition to outstanding premiums there will, in some cases, be included in the total premiums taken into account the full premiums due upon policies issued under the **half-credit** system. Under this system one-half only of the premium is payable in cash, the other half is treated as a loan on the policy, and appears, of course, amongst the assets in the Balance Sheet; the *full* premium being taken credit for as income due in the year.

A large proportion of the premium income of an assurance company reaches it through agents, who, as a general rule, deduct the commission due to them on the premiums and remit the balance. Consequently, in most cases, remittances from agents represent *net* figures, and adjusting Journal entries are necessary to arrive at the gross premiums collected, and the amount of the commission and expenses deducted. Journal entries are also necessary to bring the amount of the outstanding premiums into the books at the close of the year. The practice of assurance companies differs somewhat with regard to outstanding premiums. Some companies deal only with such premiums as are actually payable within the financial period covered by the accounts; other companies include the balance of the annual premiums, where such premiums are payable by half-yearly or quarterly instalments, on the ground that such unpaid instalments constitute a debt upon the policy in the event of its becoming a claim.

When assessing the value of outstanding premiums as an asset in the Balance Sheet, the student should remember that, as already explained, there is a reserve for valuation purposes, on every policy, representing the liability of the company at the date of the valuation. This reserve liability almost invariably represents a larger sum than the outstanding premium treated as an asset. For example, John Smith took out a policy for £500 payable at death. The company's liability on this policy was valued at £75 at the date of the last valuation, and was duly reserved for. The outstanding premium is

taken credit for at £14. The amount treated as an asset is therefore well secured, because were the policy to lapse by non-payment, the reserve liability would be released, while should a claim arise the unpaid premium would be deducted from the amount of the claim. Some companies quote yearly premiums payable in quarterly or monthly instalments, whilst others quote quarterly, etc., premiums. In the latter case, provided the last premium had been paid, nothing would be outstanding.

When the examination candidate is required to prepare a set of accounts from the Trial Balance of an assurance company he should remember that the item " outstanding premiums " has *already* been included in the " premiums," and therefore it only needs to be scheduled in its proper place amongst the assets in the Balance Sheet.

Sometimes premiums are reduced by the issue of bonuses. In such cases it is customary to take credit for the full premium, and to include the bonuses in the appropriate place on the payments side of the account.

There are other points of minor importance affecting the item " premiums," but enough has been said to show that the figure entered in the Revenue Account should be the *true net figure* representing the premium income of the company for the year, after providing for outstandings and after deducting lapses, re-assurances and premiums belonging to other periods.

The First Schedule of the Act of 1909 makes no provision in the body of the account itself for separating the premium income as between new and old business, but Note S. indicates that this information must be supplied. Where under the old Act this desirable analysis has been made by assurance companies, no objection to the amendment appears to have been made by the Board of Trade.

Considerations for Annuities Granted.—The word " annuity," in addition to its literal meaning—an annual payment—means also the investment of a sum of money to yield an agreed amount at fixed periods. Most companies, in return for an immediate cash payment, undertake to pay an agreed sum yearly (half yearly, or quarterly) during the lifetime of a specified person termed the **annuitant.** The heading provided in the First Schedule is for the amounts received by the company from persons who have purchased annuities during the year. The purchase price of annuities is

based solely on the age and sex of the purchaser and the rate of interest which the company expects to earn on its invested funds. As a general rule, no investigation into the family history of the purchaser is made as is the case with life assurance. It is perplexing to the lay mind that tables are not compiled having special reference to "poor lives," but presumably the demand for annuities by this class is not sufficiently strong to afford the necessary data for reliable averages upon which to base suitable rates.

It would appear from the notes appended to the First and Third Schedules that the maintenance of a separate Annuity Fund is optional, though the tenor of these notes seems to be somewhat in opposition to the provisions of Section 3 of the Act. Some companies exhibit separate Annuity Funds, whilst others do not specify the separate liability for annuities granted, the liability being merged in the Life Assurance Fund. Annuities are, as a general rule, purchased by the payment of a sum down, but contingent or deferred annuities, purchased by annual payments over a certain period, are also granted. Some companies treat these payments under the head of "premiums"—apparently the most suitable course.

Interest, Dividends and Rents.—This heading embraces the yearly income of the company derived from interest and dividends on its investments and the rents of its freehold and leasehold properties. As was explained in the case of Premiums, this item should include all the income from these sources applicable to the year. Some portion of this income, although payable within the year, will be outstanding, and must be brought into account by means of Journal entries. Items will also exist which, although not payable within the period, have to an extent, *accrued* during the year. For instance debenture interest payable on September 30 and March 31, will have "accrued" for three months on December 31, and, to this extent, may be brought into account.* But the practice of assurance companies is not uniform, and in some cases, accrued income is ignored. Although it may be more accurate to include accrued interest, the practice undoubtedly leads to some confusion and difficulty, and since the income anticipated for one year

* Where accrued interest has been brought into account, investments must be taken at actual cost or less, and not at current market prices, as the latter valuation includes the accrued interest.

must be excluded from the next, no advantage in the long run appears to be gained. In all cases where outstanding or accrued income has been brought into account the corresponding entries must, of course, appear in the Balance Sheet as assets under appropriate headings

The student will note that the First Schedule requires the total amount of income tax payable on the income for the year to be set out so that the net income may be shown. The above heading also includes interest payable on loans on the company's policies, on reversions and other secured loans. Discount received on claims paid in advance should also be included under this heading.

The rents taken into account should be the net rents received after paying all outgoings, such as rates, taxes, repairs, etc.

In cases where the company owns and occupies its own premises, it is usual to charge a fixed rent as income under this heading, a similar amount being charged under the appropriate head on the expenditure side of the account.

The student will have gathered from the preceding pages that the amount of interest earned by an assurance company upon its funds is a factor of paramount importance in the policy of the company. A responsible part of the duties of the management is the selection of investments yielding as large a return as is compatible with the security of the capital. Reference has already been made to the importance which the rate of interest earned assumes when the quinquennial valuation is in progress and in the compilation of the company's tables of rates. The student may have noted that it is the practice of many companies to disclose from time to time the rate of interest earned.

In order to arrive at the strict rate of interest earned algebraic knowledge is necessary, but it can be obtained simply, and with approximate accuracy as follows—

Example—

	£
Funds at commencement of year . .	250,000
,, end ,, . .	300,000
	550,000
Less Interest earned during the period .	10,500
	2)539,500
Average Funds say . .	£269,750

$$\textbf{Rate of interest earned} = \frac{10{,}500 \times 100}{269{,}750} = £3\ 17s.\ 10d.\ \textit{per cent.}$$

Other Receipts.—The wording of the First Schedule indicates that all receipts other than those included in the preceding headings must be separately specified. If any fresh issue of capital has taken place the amount realised will come under this head. So also will fines collected for the revival of lapsed policies or fees * received, or profits made by the company. Profits realised on the sale of investments will also be included unless they are taken direct to the Reserve Account. As these profits, in the case of an assurance company, are capital profits, it is more satisfactory to carry them to reserve.

Turning now to the expenditure side of the First Schedule we come first to—

Claims.—This item should include all claims actually paid during the year and all claims admitted during the year. There must always be claims outstanding at the date on which the accounts are closed, *e. g.* where the title of the claimant and the legal proof of death † are still under investigation. All bonuses and other benefits attached to the policies must also be reserved for. It is the practice of many companies to bring into account all claims of which they have been advised prior to the close of the year. Theoretically this is sound, but it has drawbacks, and results in some cases in over-statement of claims. Outstanding claims are brought into the books by means of Journal entries, and appear in the Balance Sheet as liabilities.

The First Schedule requires the division of claims under two headings: (*a*) **Death,** and (*b*) **Maturity.** The former refers to claims payable on the death of the assured, the latter to **endowment policies,** which secure the payment of an agreed sum on the attainment of a specified age, or at previous death. Endowment assurance is a popular and suitable form of investment for those desirous of securing a fixed income.

Surrenders.—This item consists of the amounts paid to policy holders who have given up, or "surrendered," their policies, before the completion of their contracts. It also includes sundry losses incurred in connection with

* Fees received for the transfer of shares, or for the registration of assignments or other documents.

† Registrar's certificate of death; Declaration by a disinterested person as to identity; Birth Certificate; Probate of Will, or Letters of Administration.

the company's policies. For example, where policies issued on the half-credit system have lapsed, the unpaid portions of the premiums treated as loans, as previously explained, become losses, and must be written off and included in the above item. Loans outstanding upon lapsed policies are similarly treated. There is, of course, no actual loss in these cases, as the amounts advanced are always within the surrender values of the policies. When a policy has lapsed, however, the asset account, representing the loan, no longer holds good, and is closed by transferring the balance to the Surrenders Account. The amounts paid for the surrender value of bonuses as well as for the surrender value of the "bare" policies must also be included, but the items need not be separated. The amounts paid upon Surrender depend upon the "reserve value" of the policy. This value consists of that portion of the annual premiums not required to cover the risk for the year, accumulated at compound interest. A policy does not, as a rule, acquire a surrender value until three years' premiums have been paid (Endowment policies, two years) for the reason that the premiums paid during those early years are, for the greater part, absorbed by office expenses. Most life offices guarantee, on surrender, a minimum proportion of the premiums paid, generally one-half for Endowment, and one-third for Whole-Life, Policies, with, in addition, any Reversionary Bonuses that may attach to the policy.

Annuities.—These are the payments made during the year in fulfilment of the company's annuity contracts, the consideration for which was dealt with on the other side of the Revenue Account. The item must, of course, include all annuities due, but not paid. The great majority of annuities are payable half-yearly, though other terms of payment are arranged to suit the convenience of annuitants. Income tax is deducted from all annuities before payment, except where exemption forms have been lodged by annuitants with the company. In such cases the annuity is paid in full, and the tax is subsequently recovered by the company from the Inland Revenue authorities. Where income tax is deducted by the company, the sums so deducted may be retained by the company provided the taxed income of the undertaking exceeds the total amount paid by way of annuities during the year (*Edinburgh Life Assurance Company* v. *The Lord Advocate*).

Bonuses in cash.—A bonus is a share of the surplus of the company's assets over its liabilities, as determined by the Quinquennial (or Annual) Valuation made by the company, and declared by the company as a *bonus* to its participating policy holders (With-Profit Policies). When a bonus has been declared, the policy holder has, usually, the option of (1) allowing his share of the bonus to accumulate until his policy becomes a claim,* or (2) immediately drawing in cash a sum somewhat smaller than his share, or (3) having the bonus applied to the reduction of future premiums or (4) converting a Whole Term Policy into an Endowment Assurance. The above heading provides for such bonuses as have been drawn *in cash* during the year.

Bonuses in Reduction of Premium.—The full premiums payable under these policies are included on the income side of the Revenue Account, and those portions of the premiums credited as paid, in lieu of bonus, are set out under this heading.

Commission.—This heading embraces all sums paid by a company to agents and others as remuneration for obtaining business. An *over-riding commission* is sometimes paid to district agents on the business introduced by the agents in the districts they control.

Commission due on all outstanding premiums taken into account must be provided for.

The commission paid to agents varies from 10 per cent. to 25 per cent. on the first premium payable on ordinary branch new business introduced by them, and 2½ per cent. to 5 per cent. on the renewal premiums collected by the agent. In some cases a single commission, called a "flat" commission, is paid on the first premium, ranging from 25 per cent. to 50 per cent., no commission being paid on renewals. In Industrial Assurance the agents' commission is usually reckoned at so many times the amount of the premium. For example, in the case of a weekly premium of 1*d.*, the commission would be 1*s.* 2*d.*, or 14 times the premium. The commission paid to agents introducing annuity business usually amounts to 1 per cent. on the purchase price of the annuity.

Expenses of Management.—Under this head appear the administration expenses incurred in carrying on the business, *e. g.* rent, rates, taxes, salaries, advertising, law

* Known as "a reversionary bonus."

costs, medical fees, depreciation of furniture, etc. In accordance with general commercial practice, separate Ledger Accounts are kept for the chief kinds of expense, including the usual " Profit and Loss " items, and at the end of the year these various expense accounts are closed into a general account under the above heading. No details of this heavy item are required by the terms of the Act; but hitherto it has been the practice of many companies to show, in an inner column, some of the chief details composing the total. All expenditure held in suspense as an asset in the Balance Sheet, *e.g.* Preliminary Expenses, must be separately set out in the Revenue Account (see Note 4, First Schedule).

Other Payments.—The items included under this heading must be separately stated, the designation " Sundries " being inadmissible. Appropriate payments for inclusion are dividends and bonuses paid to shareholders, depreciation on investments, transfers to Reserve Fund, bad debts, etc. Where shareholders are paid a dividend in the form of fully paid shares, the amount of the dividend will appear as a payment under this heading, and a similar amount must be entered on the other side of the account representing the fresh issue of capital that has been made.

Amount of Life Assurance Fund at the end of the Year.—This item forms the " balance " of the account, and appears again in the Balance Sheet as representing the surplus of the company's assets over its liabilities. As already explained, this balance forms the starting item of the Revenue Account for the next period. Students appear to be confused because the " Amount of Funds at the End of the Year " is sometimes omitted in examination questions. In such cases prepare the Revenue Account in the ordinary way, the balance disclosed is the amount of the " funds at the end of the year " to be included in the Balance Sheet.

Forms (B), (C), (D), and (E), First Schedule

These forms of Revenue Account apply respectively to Fire, Accident, Employers' Liability, and Bond Investment Insurance.

They are almost identical with Form (A) already explained in detail. The alterations are few and unimportant, and the only point to which attention need be called is

FIRST SCHEDULE.

N.B.—Where marine insurance business or sinking fund or capital redemption insurance business is carried on, the income and expenditure thereof to be stated in like manner in separate accounts. Any additional businesses (including employers' liability insurance business transacted out of the United Kingdom) to be shown in a separate inclusive general account.

(A.)—*Form applicable to Life Assurance Business.*

Revenue Account of the________________for the Year ending________________in respect of Life Assurance Business.

—	Business within the United Kingdom	Business out of the United Kingdom	Total	—	Business within the United Kingdom.	Business out of the United Kingdom.	Total.
	£ s d	£ s d	£ s d		£ s. d	£ s. d	£ s d
Amount of life assurance fund at the beginning of the year - -	—	—		Claims under policies paid and outstanding:—			
Premiums —				By death - - - - - - - -			
Consideration for annuities granted				By maturity - - - - - - -			
Interest, dividends, and rents - - - (£ s. d)				Surrenders, including surrenders of bonus -			
Less income tax thereon				Annuities - - - - - - - -			
				Bonuses in cash - - - - - - -			
				Bonuses in reduction of premiums -			
				Commission - - - - -			
	—	—		Expenses of management - - -	—	—	
				Other payments (accounts to be specified)	—	—	
Other receipts (accounts to be specified) - - - - - -	—	—		Amount of life assurance fund at the end of the year, as per Third Schedule -	—	—	
£				£			

NOTE 1.—Companies having separate accounts for annuities to return the particulars of their annuity business in a separate statement.

NOTE 2.—Companies having both Ordinary and Industrial branches to return the particulars of the business in each department separately.

NOTE 3.—Items in this Account to be net amounts after deduction of the amounts paid and received in respect of re-assurances of the Company's risks.

NOTE 4.—If any sum has been deducted from the expenses of management account, and taken credit for in the Balance Sheet as an asset, the sum so deducted to be separately shown in the above Account.

NOTE 5.—Particulars of the new life assurances effected during the year of account to be appended to the above Account showing separately, as respects business within and business out of the United Kingdom, the number of policies, the total sums assured, the amount received by way of single premiums, and the amount of the yearly renewal premium income, the items to be net amounts after deduction of the amounts paid and received in respect of re-assurances of the company's risks. The particulars as to yearly renewal-premium income need not be furnished in respect of Industrial business.

NOTE 6.—The columns headed "Business out of the United Kingdom," in the case of companies having their head office in the United Kingdom, apply only to business secured through Branch Offices or Agencies out of the United Kingdom.

(B.)—*Form applicable to Fire Insurance Business.*

Revenue Account of the ________________ for the Year ending ________________ 19__ in respect of Fire Insurance Business.

		£ s. d.	£ s. d.				£ s. d.
	Amount of fire insurance fund at the beginning of the year :—				Claims under policies paid and outstanding -		
					Commission - - - - - - -		
	Reserve for unexpired risks -				Expenses of management - - - -		
	Additional reserve (if any) -				Contributions to fire brigades - - - -		
	Premiums - - - - - - -				Other payments (accounts to be specified) -		
		£ s. d.				£ s. d	
	Interest, dividends, and rents -				Amount of fire insurance fund at the end of the year as per Third Schedule :—		
	Less income tax thereon -				Reserve for unexpired risks being per cent. of premium income for the year - - - -		
	Other receipts (accounts to be specified) - -				Additional Reserve (if any) -		
	£				£		

NOTE 1.—Items in this Account to be the net amounts after deduction of the amounts paid and received in respect of re-insurances of the Company's risks.

NOTE 2.—If any sum has been deducted from the Expenses of management account, and taken credit for in the Balance Sheet as an asset, the sum so deducted to be separately shown in the above Account.

(C.)—*Form applicable to Accident Insurance Business.*

Revenue Account of the ________ for the Year ending ________ 19__ in respect of Accident Insurance Business.

		£ s. d	£ s. d			£ s. d	£ s. d
	Amount of accident insurance fund at the beginning of the year:—				Payments under policies, including medical and legal expenses in connection therewith -		
	Reserve for unexpired risks -				Commission - - - - - - -		
	Total estimated liability in respect of outstanding claims - - - -				Expenses of management - - - -		
	Additional reserve (if any) -				Other payments (accounts to be specified) -		
	Premiums—	£ s. d.			Amount of accident insurance fund at the end of the year as per Third Schedule:—	£ s. d	
	Interest, dividends, and rents -				Reserve for unexpired risks being per cent of premium income for the year - - - -		
	Less income tax thereon -				Total estimated liability in respect of outstanding claims as per Fourth Schedule (C) - - -		
	Other receipts (accounts to be specified) -				Additional reserve (if any) -		
		£				£	

Note 1.—Items in this Account to be the net amounts after deduction of the amounts paid and received in respect of re-insurances of the Company's risks.

Note 2.—If any sum has been deducted from the Expenses of management account, and taken credit for in the Balance Sheet as an asset, the sum so deducted to be separately shown in the above Account.

(D.)—*Form applicable to Employers' Liability Insurance Business.*

Revenue Account of the __________ for the Year ending __________ 19 __ in respect of Employers' Liability Insurance Business transacted within the United Kingdom.

	£ s. d.	£ s. d.		£ s. d.	£ s. d.
Amount of employers' liability insurance fund at the beginning of the year :—			Payments under policies, including medical and legal expenses in connection therewith -		
Reserve for unexpired risks -			Commission - - - - - -		
Total estimated liability in respect of outstanding claims - - - -			Expenses of management - - -		
Additional reserve (if any) -			Other payments (accounts to be specified) -		
Premiums - - - - - - - -			Amount of employers' liability insurance fund at the end of the year, as per Third Schedule —		
Interest, dividends, and rents -			Reserved for unexpired risks, being per cent. of premium income for the year -		
Less income tax thereon -			Total estimated liability in respect of outstanding claims, as per Fourth Schedule (D) - - -		
Other receipts (accounts to be specified) - -			Additional reserve (if any) -		
£			£		

NOTE 1.—Items in this Account to be the net amounts after deduction of the amounts paid and received in respect of re-insurances of the Company's risks.

NOTE 2.—If any sum has been deducted from the Expenses of management account, and taken credit for in the Balance Sheet as an asset, the sum so deducted to be separately shown in the above Account.

(E.)—*Form applicable to Bond Investment Business.*

Revenue Account of the ____________ for the Year ending ________ 19____ in respect of Bond Investment and Endowment Certificate Business.

		£ s. d.	£ s. d.
	Amount of Bond Investment and Endowment Certificate Fund at the beginning of the year - -		
	Additional reserve (if any) - -		
	Premiums - - - - - - - -		
	Interest, dividends, and rents -	£ s. d.	
	Less income tax thereon -		
	Other receipts (accounts to be specified) -		
	£		

		£ s. d.	£ s. d.
	Claims under bonds and certificates, paid and outstanding - - - - - - -		
	Commission - - - - - - - -		
	Expenses of management - - - - -		
	Other payments (accounts to be specified) -		
	Amount of Bond Investment and Endowment Certificate Fund at the end of the year as per Third Schedule - - - - -		
	Additional reserve (if any) - -		
	£		

NOTE 1.—Items in this Account to be the net amounts after deduction of the amounts paid and received in respect of re-insurances of the Company's risks.

NOTE 2.—If any sum has been deducted from the Expenses of management account, and taken credit for in the Balance Sheet as an asset, the sum so deducted to be separately shown in the above Account.

the provision of a Reserve for unexpired risks, which in effect forms part of the "Fund" appropriate to the class of business in question.

As the premiums on insurance policies are paid in advance, it is clear that, at any given date, some policies will be in force, the premiums on which have been paid for a period that extends beyond the year dealt with in the current accounts. In consequence of these unexpired risks the whole of the premium income has not been earned at the closing date. There are various methods of estimating the amount which should be reserved under this head. In any case the estimate can only be approximate, and should be based as far as possible upon past experience of the particular risks covered by the premium income.

The general practice of the leading insurance companies is to reserve as follows :—

Fire.—33⅓ per cent. to 40 per cent. of the premium income. This is usually recognised as the minimum reserve necessary.

Accident.—40 per cent. of the net premium income after deducting re-assurances.

Employers' Liability. — 40 per cent. of the net premium income, care being taken that adequate allowance is made for outstanding claims, as, in some cases, annuities may be payable for long periods.

Profit and Loss Account (Second Schedule)

This form applies only to companies carrying on more than one class of business.

As already explained, the profit or loss upon life assurance business can only be ascertained by actuarial valuation. This schedule provides for the combination of the profits or losses made upon classes of business other than life assurance. Any other income, applicable to the combined business, and not to a special department, is collected by means of this account. On the other side of the account, payments and expenses not chargeable to any particular department are set out. The schedule practically takes the place of the net Profit and Loss Account of an ordinary trading concern.

SECOND SCHEDULE.

PROFIT AND LOSS ACCOUNT OF THE FOR THE YEAR ENDING 19 .

	£ s. d.	£ s. d.		£ s. d.
Balance of last year's account			Dividends and bonuses to shareholders	
Interest and dividends not carried to other accounts			Expenses not charged to other accounts	
Less income tax thereon			Loss realised (accounts to be specified)	
Profit realised (accounts to be specified)			Other payments (accounts to be specified)	
Other receipts (accounts to be specified)			Balance as per Third Schedule	
		£		£

Balance Sheet (Third Schedule)

Dealing first with the liability side of the Balance Sheet, the student will note that the various items composing the balance of the Revenue Account are separated and entered "short." The total of these items when extended agrees, of course, with the balance of the First Schedule, and forms the amount of the company's funds at the end of the year, or, in other words, the surplus of the assets over the liabilities.

Shareholders' Capital.—As already explained, the amount paid up on the company's shares has been brought into the accounts by means of the Revenue Account, and forms part of the balance of that account. The amount of the paid-up capital is set out separately in the analysis of the funds for general information. No capital will, of course, appear in the case of mutual companies. If shares have been issued at a premium, the amount of such premium should be set out as a separate fund or included in the Reserve Fund.

Assurance and Insurance Funds.—The next items set out in the Schedule represent the various departmental funds as shown in their respective Revenue Accounts. It is important that the student should remember that these various funds are not liabilities in the ordinary book-keeping sense, but represent amounts available to meet the liabilities of each department when ascertained by valuation.

Annuity Fund.—This item represents the company's liability to its annuitants as disclosed by valuation. The student will note that the necessity for the separate statement of this fund appears to be doubtful.

Sinking Fund and Capital Redemption Fund.—These items represent the company's liability on "Sinking Fund Policies," sometimes known as "Capital," or "Leasehold, Redemption Policies." Under these policies the company contracts to pay, in consideration of an annual premium, a fixed sum at a stated future date. These policies involve no life risk; they represent simple accumulation of premiums at compound interest, and are commonly used to repay debentures, or to replace wasting assets, as *e.g.* leaseholds.

Profit and Loss Account.—This is the credit balance of the Profit and Loss Account (Second Schedule) in cases where such an account is necessary.

Other Funds.—This heading embraces such items as Investment Reserve Funds now maintained by the majority of the leading companies. Other items which cannot be included under any of the preceding headings must be set out separately.

The total of the above headings is now extended in the second cash column, and forms the total of the Funds at the end of the year, as shown in the Revenue Account (First Schedule), and represents the excess of the assets over the liabilities.

Claims Admitted (Annuities due) but not Paid.—These items were explained when the Revenue Account was dealt with. They represent the liability for the accrued outstandings taken into account when preparing the First Schedule.

Other Sums Owing by the Company.—If any liabilities exist which are not covered by any of the preceding headings, they must be separately set out under the above designation. Loans, Bank Overdrafts, Income paid in advance (premiums or interest) are illustrations of such items. Small sums outstanding for commission due to agents, debts due to tradesmen, and so on, would be included as " Sundry Creditors."

Turning now to the asset side of the Balance Sheet, we find :—

Mortgages.—Distinction must be made between those loans on mortgage " within " and those " without " the United Kingdom.

Loans.—*Loans on Rates* are loans advanced to various local authorities on the security of the Rates. They are usually repayable by a number of equal half-yearly instalments, and differ from an ordinary mortgage in that they are commonly for a fixed term, and cannot be called in. *Loans on Life Interests and Loans on Reversions.*—These are loans secured by reversions, under will, to property or investments, on the death of the tenant for life. If the reversion is contingent and not absolute a life policy covering the contingent life is required. *Loans on Stocks and Shares* are loans secured by the deposit or transfer of scrip representing sound investments. *Loans on the Company's policies* in many cases form the largest loan business of the company. They are covered by the deposit of the policies, and an equitable charge upon them in the company's favour. Companies naturally esteem these loans, which are always within the surrender

values of the policies. *Loans on Personal Security* * are practically confined to offices with a legal connection, whose clients are doubtless able to offer advantageous business under this head.

THIRD SCHEDULE.

Balance Sheet of the ______________ on the ______________ 19__

LIABILITIES.		£ s d
Shareholders' capital paid up (if any)	£	
Life assurance funds* :—		
Ordinary branch		
Industrial do		
Annuity fund*		
Fire insurance fund		
Accident insurance fund		
Employers' liability insurance fund		
Bond investment and endowment certificate fund		
Marine insurance fund		
Sinking fund and capital redemption fund		
Profit and loss account		
Other funds (if any) to be specified		
	£	
Claims admitted or intimated but not paid†		
Life assurance		
Fire insurance		
Bond investment		
Annuities due and unpaid†		
Other sums owing by the company† (to be stated separately under each class of business)		
	£	

ASSETS	£ s d
Mortgages on property within the United Kingdom	
Do do out of the United Kingdom	
Loans on parochial and other public rates	
Do Life interests	
Do Reversions	
Do Stocks and shares	
Do. Company's policies within their surrender values	
Do Personal security	
Investments	
Deposit with the High Court (securities to be specified)	
British Government securities	
Municipal and county securities, United Kingdom	
Indian and Colonial Government securities	
Do. provincial securities	
Do municipal do	
Foreign Government securities	
Do provincial securities	
Do municipal do	
Railway and other debentures and debenture stocks—Home and Foreign	
Railway and other preference and guaranteed stocks	
Do ordinary stocks	
Rent charges	
Freehold ground rents	
Leasehold do	
House property	
Life interests	
Reversions	
Agents' balances	
Outstanding premiums†	
Do interest, dividends, and rents†	
Interest accrued but not payable†	
Bills receivable	
Cash	
On deposit	
In hand and on current account	
Other assets (to be specified)	
£	

* Life companies having separate annuity fund to show amount thereof separately

† These items are or have been included in the corresponding items in the First Schedule

NOTE 1.—When part of the assets of the company are specifically deposited, under local laws, in various places out of the United Kingdom, as security to holders of policies there issued, each such place and the amount compulsorily lodged therein must be specified in respect of each class of business, except that, in the case of fire, accident, or employers' liability insurance business, it shall be sufficient to state the fact that a part of the assets has been so deposited

NOTE 2.—A Balance Sheet in the above form must be rendered in respect of each separate fund for which separate investments are made

NOTE 3.—The Balance Sheet must state how the values of the Stock Exchange securities are arrived at, and a certificate must be appended, signed by the same persons as sign the Balance Sheet, to the effect that in their belief the assets set forth in the Balance Sheet are in the aggregate fully of the value stated therein, less any investment reserve fund taken into account In the case of a company transacting life assurance business or bond investment business, this certificate is to be given on the occasions only when a statement respecting valuation under the Fourth Schedule is made

NOTE 4.—In the case of a company required to keep separate funds under section 3 of this Act, a certificate must be appended, signed by the same persons as signed the Balance Sheet and by the auditor, to the effect that no part of any such fund has been applied directly or indirectly for any purpose other than the class of business to which it is applicable

Investments.—Most of the details required need no comment, but a few notes on some of the headings may be useful. *Deposit with the High Court.*—These are securities representing the company's compulsory deposit

* Loans are sometimes advanced on the policies of other companies.

(FORM referred to under Heading No. 7 in Fourth Schedule (A).)

VALUATION BALANCE SHEET of as at 19

Dr.	£	Cr.	£
To net liability under Life Assurance and Annuity transactions (as per summary statement provided in Fourth Schedule (A)) - - - - -		By Life Assurance and Annuity funds (as per balance sheet under Schedule 3) - - - - -	
To surplus, if any - - - - - - -		By deficiency, if any - - - - - -	

(see p. 520). No certificate of incorporation is obtainable by new companies until the required deposit has been made. *Rent Charges* are loans raised under the Lands Improvements Act upon the security of property, and are usually repayable by instalments upon the annuity system. *Freehold Ground Rents* are largely purchased by Insurance Companies, and combine present income with reversionary benefits. In some cases the annual ground rent may not afford a high rate of interest upon the investment, but, when the property "falls in" upon the expiration of the lease, the addition to the company's assets and income is frequently considerable. *Agents' Balances* represent premiums collected by agents, but not yet remitted to the Head Office. When bringing these figures into the accounts allowance must be made for all commission due to agents, and for possible bad debts. *Other assets* would include such items as Furniture and Fixtures, Stock of Stationery, Policy Stamps, Preliminary Expenses, etc.

The student should carefully study the notes appended to the Balance Sheet. The more important of these notes are: *Note* 2, which calls for a Balance Sheet in respect of each separate fund for which separate investments are made; *Note* 3, containing the new regulations that the Balance Sheet must state the basis on which the Company's Stock Exchange securities have been valued, and that a certificate, "signed by the same persons as sign the Balance Sheet," must be appended to the effect that the assets are in the aggregate fully of the value stated in the Balance Sheet; and *Note* 4, requiring the auditors to sign the certificate certifying that no part of any fund has been utilised for any purpose other than the class of business to which it applies (see p. 522).

Valuation Forms (4th and 5th Schedules)

The Fourth Schedule gives the basis of valuation, and the Fifth Schedule the forms which apply to the valuations necessary under Section 5. The form of the Valuation Balance Sheet applicable to Life Assurance (Fourth Schedule) is given on the previous page.

Books of Account

The business of an assurance company is practically a cash business, and the efficiency of a set of books used

Expenditure Cash Book

Date	Particulars	No. of Policy	Claims		Surrenders	Bonuses in Cash	Annuities		Commission		Re-assurances	Petty Cash	Expenses of Management	Led. Folio	Capital Expenditure			Other Payments	Total	Bank
			By Death	By Maturity			Net	Income Tax Deducted	New Business	Collecting					Investments purchased	Loans Granted	Other Capital Payments			

* In cases where the bulk of the expenses of Management are recorded in this column the totals entered would be carried to a subsidiary book for detailed analysis

Receipts Cash Book

Date	Particulars	Month	No. of Policy	Head Office		Remittances from Branches & Agencies		Re-Assurance	Consideration for Annuities	Income on Investments						Led. Folio	Capital Receipts			Sundry Receipts	Total	Bank
				New Premiums	Renewal Premiums	New Prems	Renewal Prems			Investments	Income Tax Deducted	Rents	Income Tax Deducted	Interest on Loans	Income Tax Deducted		Loans Repaid	Investments Sold	Other Capital Receipts			

by an assurance company is to be judged by the skill with which provision is made for the tabulation of the receipts and payments in accordance with the needs of the particular company. Columnar Cash Books and Journals are eminently suitable for assurance work, and are largely used; the character, capacity, and number of the books employed depending upon the objects, requirements and magnitude of the business. But seeing that the final accounts must be presented in the statutory form, it is clear that the books of account must also be designed to afford the information necessary to compile these statutory accounts with the least possible trouble. The scheme here outlined is applicable mainly to ordinary branch assurance. Industrial assurance, entailing the collection of an enormous number of small weekly and monthly premiums, requires special treatment. Companies undertaking industrial assurance are few in number, and the necessary amplifications in the system of book-keeping employed, although very interesting, are too numerous to be treated here. Besides, the examination candidate would not be expected to possess knowledge of so technical a subject.

Cash Books

The great majority of assurance companies keep separate Cash Books for receipts and payments. The analysis columns required are so numerous that space for them cannot conveniently be afforded in a single book.

Receipts Cash Book.—A ruling commonly employed for this purpose is given on the previous page. The columns provided can be increased or diminished to meet particular needs. The Cash Book is kept and posted on lines common to all Columnar Cash Books (see p. 376 *et seq.*). Folio columns are provided for items which must be posted separately, such as capital receipts and payments. The columns headed " Month," and " Number of Policy " are inserted for convenience of reference, every policy being identified by an official number and the month in which the premium falls due. In some large companies, the Receipts Cash Book is subdivided into a number of Cash Books, for example, Head Office Premiums Cash Book, Agency Remittances Cash Book, Loans Cash Book, Rents

Cash Book, and so on. In cases where a number of subsidiary Cash Books are employed all receipts not applicable to one or other of the sub-Cash Books will be grouped and analysed in a *General Cash Book*. Usually the daily or weekly totals of the sub-Cash Books are carried to appropriate columns in this Cash Book. In any

AGENTS' DEBIT JOURNAL

Agent.	Town.		Premiums on new Policies.	Renewals.	Other Debits.	Total.	Remarks.

AGENTS' CREDIT JOURNAL

Agent.	Town.		Lapses.	Premiums on New Policies not taken up.	Commission.	Other Credits.	Total.

case, the books must be so designed that the total receipts of all classes and from all sources are conveniently marshalled for posting purposes.

Expenditure Cash Book.—A common form is given on p. 545. In many cases a number of subsidiary Cash Books are employed, the totals, daily or weekly, of these Cash Books being brought into the Main or General Cash Book. If separate cashiers are entrusted with funds

for the service of the subsidiary Cash Books, the "Imprest" system may be usefully adopted. Separate Cash Books are commonly employed for *Claims* and for each class of assurance, *i.e.* "ordinary" and "industrial." *Loans on Policies* where the number of these loans is heavy are usually recorded in a separate Cash Book. *Expenses of Management*, *Surrenders*, and *Annuities* are also classes of expenditure for which separate Cash Books are usefully employed in many cases.

Petty Cash Book.—No rulings of this book need be given here, as the principle of its construction is the same as that with which the student is already familiar. In most cases this book is provided with analysis columns for items of expenditure forming part of the heading "expenses of management," such, for example, as medical fees, policy stamps, salaries, printing, postages, and any other sub-divisions of the item for which independent totals are desirable.

Ledgers

The number of Ledgers employed by a particular company will depend on the nature and magnitude of the company's business. In most cases, however, separate Ledgers will be kept for *Loans*, *Mortgages*, and *Investments*. Indeed, in some cases the Ledgers are almost as numerous as the analytical headings of the assets which appear in the Third Schedule of the Act. A form of *Investment Ledger* has already been given on p. 482. The rulings of this book can readily be adapted to record any kind of investment. Separate *Agents Ledgers* are always kept. If the company is a large one, these Ledgers will probably be sub-divided into geographical districts. Particulars of all premiums debited to the company's agents for collection, together with details of the agents' remittances, are shown in these books. All supplemental Ledgers should, when possible, be self-balancing. The General Ledger, as in the case of Banks, contains the "total" accounts representing each separate Ledger, so that from this Ledger a Trial Balance can be rapidly extracted at any time. The accounts appearing in the General Ledger afford the information for the preparation of the Revenue Account, and Balance Sheet in the First and Third Schedules of the Act. The detailed balances of the supplementary Ledgers must of course

agree with their respective "total" accounts in the General Ledger. The material for posting the supplemental Ledger is obtained from the totals of the analysis columns of the various Cash Books. A *Revenue Ledger* is frequently kept as a separate book. This Ledger contains all the debit and credit accounts necessary for the construction of the First Schedule. The "Expenses of Management" account is, in practice, considerably subdivided. Separate accounts are kept for the chief items of expense composing the total. At the end of the year these accounts are closed into the main account.

The Journal

The Journal occupies an important place in assurance book-keeping. The student is already aware that the necessary statutory accounts are not cash accounts, but that they embrace all outstanding income and expenditure. At the close of the year it is necessary therefore to pass Journal entries through the books for all outstandings, *e. g.*—

Outstanding Premiums Account Dr.
to Premiums Account.
for premiums outstanding as on December 31, 19—.

Outstanding Interest, Rents, and similar items of income are treated in like manner through the Journal. So, too, is outstanding expenditure, *e. g.*—

Claims Account Dr.
to Outstanding Claims Account.
for claims admitted but not paid as on December 31, 19—.

Outstanding surrenders, bonuses, commission, and expenses are similarly treated. Anyone who has had practical experience of assurance work, especially perhaps in the capacity of auditor, will know that these Journal entries frequently present considerable difficulties, and need careful preparation and investigation to ensure that the figures passed into the accounts are strictly accurate. The Journal also contains the numerous inter-departmental transfers made from time to time, particularly at the close of the year. Where a company's investments are numerous, it is usual to keep an *Interest Journal* showing the interest, gross and net, due on the company's

investments, suitable rulings being provided for the purpose. An *Agents Debit Journal* will also be necessary in which the premiums due each month are marshalled and debited to the agents responsible for their collection. Similarly an *Agents Credit Journal* is used to collect and arrange all items which need crediting to the agents. Simple forms of these two Journals are given on p. 547.

Books of Record

In addition to the books of account, described above, the business undertaken by an assurance company requires the use of a large number of books of record, such as *Head Office New Premiums Book*, *Branches New Premiums Book*, with similar books for *Renewals*, *Commission Books*, *Policy Registers*, *Records of Lapsed and Surrendered Policies*, and a number of *statistical books*, with detailed information necessary from an actuarial point of view. Although the company's accountant should be familiar with these books, they are not under his control, and, from the student's point of view, they need no explanation here. Finally, it may be noted that the "card system" is extensively and advantageously employed in assurance book-keeping, particularly where industrial assurance is undertaken.

EXERCISES.

23A.

1. Is there any difference between the terms "Assurance" and "Insurance"?
2. What document forms the basis of the Contract between the Assurance Company and the assured?
3. In what different ways may the premiums on life policies be paid?
4. Explain the difference between a "Mutual" and a "Proprietary" Company.
5. What is a "Quinquennial Valuation," and what does it show?
6. Give the form of a Valuation Balance Sheet.
7. How does an Assurance Company accumulate a "Surplus"?
8. What is a "With Profit policy"?

23B.

1. What are Mortality Tables? What Mortality Tables are now in most frequent use?
2. What is a "Bonus"? How are Bonuses distributed by Assurance Companies?
3. Are any restrictions attached to policies of life assurance?

4. Under what Act are Assurance Companies now governed ?
5. What deposits are necessary in the case of Assurance Companies registered after July 1, 1909 ?
6. Explain how the deposit is made.
7. Give the form of the First Schedule to the Act of 1909.
8. What does the Fourth Schedule to the 1909 Act contain ?

23c.

1. What is a "pure" or "net" premium ?
2. What is a Half-credit Policy ? How are the premiums on such policies treated in the Revenue Account ?
3. Must every Assurance Company publish a Profit and Loss Account ?
4. What is the difference between "Industrial" and "Ordinary" assurance business ?
5. What do you understand by the term "loading" in connection with assurance business ?
6. What are "re-assurances" ? How are they treated in the published accounts ?
7. Under what circumstances can a policy of assurance be "lapsed" ?
8. How are (*a*) outstanding claims. (*b*) outstanding interest, and (*c*) outstanding premiums dealt with in the published accounts of an Assurance Company ?

23d.

The undermentioned balances form part of the Trial Balance of the Blankshire Assurance Company, Ltd., as on December 31, 19—.

Prepare the Revenue Account of the Company and show the amount of the Life Assurance Fund at the end of the year.

Amount of Life Assurance Fund at the beginning of the year, £1,470,562; Claims: By death, £76,980, by maturity, £56,420; Premiums, £210,572; Expenses of Management, £19.890, Commission, £36,541; Consideration for annuities granted, £10,620; Interest, Dividends and Rents, £52,461; Income Tax paid on preceding items, £3,060; Fines, £92; Surrenders, £21,860; Annuities paid, £19,420; Bonuses paid in cash, £9,450; Bonuses paid in reduction of premiums, £2,500; Preliminary Expenses (balance), £600.

Answer.—Fund at the end of year, £1,497,586.

23e.

From the following Trial Balance prepare the Revenue Account and Balance Sheet of the Herts and Essex Assurance Company, Ltd.

TRIAL BALANCE, *June* 30, 19—.

	£	*s.*	*d.*	£	*s.*	*d.*
Loans on Life Interests .	4,281	0	0			
Deposit with the High Court (Consols)	20,000	0	0			
Freehold Ground Rents .	168,421	0	0			
Surrenders	21,104	0	0			
Premiums				365,982	0	0

	£	s.	d.	£	s.	d.
Profit on Sale of Investments				10,824	0	0
Annuities paid	7,681	0	0			
House Property . . .	239,888	0	0			
Agents' Balances . . .	6,824	0	0			
Cash at Bank (Current Account)	12,724	0	0			
Cash in hand . . .	354	0	0			
Office Furniture . . .	1,500	0	0			
Stock of Policy Stamps in hand	168	0	0			
Mortgages in the United Kingdom	661,421	0	0			
Mortgages out of the United Kingdom	206,490	0	0			
Loans on public rates . .	174,692	0	0			
Loans on Company's policies .	498,321	0	0			
British Government Securities	221,640	0	0			
Indian Government Securities	121,621	0	0			
Foreign Government Securities	142,520	0	0			
Railway Debentures . .	528,241	0	0			
Outstanding premiums . .	21,641	0	0			
Claims admitted but not paid				58,421	0	0
Sundry Trade Creditors. .				7,724	0	0
Life Assurance Fund at the beginning of the year .				2,800,510	0	0
Consideration for annuities granted				12,272	0	0
Interest and Dividends and Rents (Gross) . . .				120,682	0	0
Income Tax paid thereon .	7,139	0	0			
Claims. By death . .	172,681	0	0			
Claims. By Maturity . .	104,728	0	0			
Bonuses in Cash . . .	4,222	0	0			
Commission . . .	9,872	0	0			
Expenses of Management .	18,241	0	0			
	£3,376,415	0	0	£3,376,415	0	0

Answer.—Assurance Fund at end of year = £2,964,602.
Balance Sheet totals = £3,030,747.

23F.

Prepare from the following balances the Revenue Account of the East Anglia Assurance Company for the year ended June 30, 19—, and the Balance Sheet as on that date.

Life Assurance Fund at the beginning of the year, £3,038,896; Claims paid and outstanding: By death, £152,288, by maturity, £45,009; Surrenders, £25,578; Premiums, £604,122; Consideration for annuities granted, £161,740; Registration and Transfer fees, £152; Bonuses paid in cash, £1,206; Bonuses in reduction of premiums, £1,370; Annuities, £92,641; Commission, £16,547; Expenses of Management, £50,092; Interest, Dividends and Rents, £157,590; Income Tax paid thereon, £10,025; Centenary bonus to Staff, £3,500; Mortgages within United Kingdom, £811,050; Mortgages out of United Kingdom, £10,950; Loans on Public

Rates, £25,462; Loans on Life Interests, £162,120; Loans on Society's Policies within their surrender values, £482,646; Deposit with High Court, £20,000; British Government Securities, £52,000; Municipal Securities, £10,500; Indian Government Securities, £42,800; Foreign Government Securities, £182,920; Railway Debentures, £1,562,451; Agents' Balances, £97,405; Outstanding Premiums, £51,421; Outstanding Interests and Rents, £115,621; Sundry Debtors, £1,061; Cash in hand, £69,651; Claims admitted but not paid, £66,860; Annuities due and unpaid, £151; Interest received in advance, £20,621; Sundry Creditors, £21,682; Reserve for outstanding commission and expenses, £24,500.

Answer.—Assurance Fund at end of year = £3,564,244.
Balance Sheet totals = £3,698,058.

CHAPTER XXIV

THE FORM OF PUBLISHED ACCOUNTS

THE student of Book-keeping has, as a rule, but little chance of examining examples of actual accounts prepared for the information of the partners of a private concern, or for publication to the shareholders of a Limited Company.

The Author's experience is that the consideration of sets of "live" accounts is both interesting and instructive to the intelligent student. Accordingly the accounts of a few well-known and representative undertakings are here given, with brief explanatory comments when such appear to be necessary or useful. Where the accounts relate to the affairs of private firms fictitious names have been substituted. It has been stated in Chapter XVI that the Companies Act, 1948, introduced a number of important statutory requirements regarding the form of the published accounts of a limited company. These new provisions make such changes that it is safe to say that extremely few accounts published before the 1948 Act came into force fully complied with them, though some companies certainly did anticipate some of the requirements and comply with them at a date when they were not legally bound to do so. At the time of writing, the change in the law is so recent that many companies have not yet published any accounts in the new form, so that a representative selection is not yet available: moreover, on some points alternative methods of presentation are available and doubtless it will take some time for agreement to be reached as to the best methods to adopt. For these reasons a full selection of Accounts in the new form is not at present published in this chapter: the authors have contented themselves for the present with presenting three representative sets which it is thought will contain sufficient matter for study. It is important that the reader should realise that the older sets of

accounts here included, which are still included as presenting various points of interest, do *not* comply with the 1948 Act.

The accounts of private firms are usually prepared annually, and, as we have already seen, Joint Stock Companies are under compulsion to publish accounts once at least in each calendar year.

A careful perusal of the specimen accounts which follow will reveal to the student a wide divergence of form. This practical illustration will convince him of the unwisdom of attempting to advocate dogmatically the adoption of any one stereotyped form of account to meet the varying needs of different undertakings.

Apart from the Statutory requirements, many elements enter into and decide the final form in which accounts are published, *e. g.* the special circumstances surrounding the particular business, the extent to which it is wise to disclose trade details for the information of rivals or the public, the personal opinions of the Directors, and so on.

The student must not assume that, in the Author's opinion, the accounts which follow are necessarily presented in a theoretically ideal form, or in a form most suitable to the needs of the respective undertakings. They are set out exactly as they were published, and are presented to the student for examination and consideration.

The accounts on pages 556–558 furnish a good example of the method in which the half-yearly accounts of a great London bank are published.

The student will note that the order in which the assets are marshalled is that described on p. 142 as the most suitable form for adoption by financial houses whose claim for public confidence is based, to a great extent, upon their ability to exhibit the possession of a safe and sufficient margin of liquid assets with which to meet all probable claims in case of urgent need. For this reason it is the practice of Banks to marshal their assets in the order of their realisability. The list is therefore headed with the already realised asset of "Cash in Hand, and with the Bank of England, £44,203,998 11*s.* 2*d.* and with a further item "Balances with, and cheques in course of collection, etc, £12,798,849 5*s.* 11*d.*"

The Cash in Hand represents the coin and notes in the hands of the paying cashiers at the Head Office and Branches as on December 31, 1929, as shown by the "Daily Balance" books, and also includes the Cash Reserves in the hands of the chief cashiers at the same establishments.

The Cash with the Bank of England represents the amount standing to the credit of Lloyds Bank upon Current Account with the Bank of England as on December 31, 1929.

The £12,798,849 5*s.* 11*d.* includes various "Cash Articles,"

LLOYDS

BALANCE SHEET,

LIABILITIES.				£	s.	d.
Capital:—						
Authorised: £74,000,000						
in 14,500,000 "A" Shares of £5 each						
1,500,000 "B" Shares of £1 each						
Issued: £73,302,076						
in 14,372,956 "A" Shares of £5 each, £1 per share paid up ...	£14,372,956	0	0			
1,437,296 "B" Shares of £1 each, fully paid	1,437,296	0	0			
				15,810,252	0	0
Reserve Fund				10,000,000	0	0
Profit and Loss Balance, as per Account below				1,495,177	11	1
				27,305,429	11	1
Current, Deposit, and other Accounts, including provision for Contingencies (Public and other Accounts secured as per contra are also included)	£351,644,168	4	8			
Balances in account with Subsidiary Companies	796	6	8			
				351,644,964	11	4
Notes in Circulation (Isle of Man) secured as per contra				5,839	0	0
Acceptances				8,603,470	5	6
Endorsements, Guarantees, and other Obligations..................................				43,622,815	9	4
				£431,182,518	17	3

REPORT OF THE AUDITORS TO THE

We report that we have examined the above Balance Sheet dated the 31st December, 1929, with
Indian accounts being brought in as at the 31st October, 1929. We have satisfied ourselves as to the
on, other Banks in the British Isles, the Balances with Banks abroad, and the Bills. We have also
Investments of the Bank. We have obtained all the information and explanations we have required
view of the state of the Bank's affairs according to the best of our information and the explanations

3, *Frederick's Place, E.C.* 2.
17th January, 1930.

BANK, Ltd.

December 31, 1929

Assets.		£	s.	d.
Cash in hand and with the Bank of England	£44,203,998 11 2			
Balances with, and cheques in course of collection on, other Banks in the British Isles	12,798,849 5 11			
		57,002,847	17	1
Money at Call and Short Notice		26,484,814	12	6
Balances with Banks Abroad		4,665,647	7	9
Treasury Bills		27,180,000	0	0
British Bills of Exchange		8,179,603	13	10
Colonial and Foreign Bills		4,265,672	14	0
Investments at or under Market Value:—				
Treasury Bonds and other short-term British Government Securities	£17,135,695 9 10			
Other British Government Securities (of which £528,122 15s., nominal, is lodged for Public and other Accounts and for the Note Issue in the Isle of Man	16,581,904 15 3			
		33,717,600	5	1
Indian and Colonial Government Securities, and British Corporation Stocks		1,179,095	8	11
Other Investments (*Note.*—There is a contingent liability for uncalled Capital in respect of a portion of these Investments)		2,237,431	5	5
		164,912,713	4	7
Shares in Subsidiary Companies:—				
The National Bank of Scotland Limited, £4,877,270 (nominal) Stock (£1,072,999 8s. paid up). Taken at Capital paid up, plus proportion of Reserve Fund and undivided Profits	£2,656,908 0 0			
Bank of London & South America Limited, 402,670 shares of £5 each, fully paid, at £8 10s. per share	3,422,695 0 0			
Indian Premises Company Limited, 7,000 shares of Rs. 100 each, fully paid, at cost	54,501 14 5			
Nominee and other Companies (written down to nil)				
		6,134,104	14	5
Lloyds & National Provincial Foreign Bank Limited, 12,000 shares of £50 each, fully paid, at £50 per share		600,000	0	0
Loans and Advances	£191,010,596 6 8			
Balances in account with Subsidiary Companies	741,656 4 6			
		191,752,252	11	6
Items in transit		3,910,386	4	9
Other Assets and Accounts (including sundry Properties at cost, less amounts written off)		4,689,053	18	0
Bank Premises, at cost, less amounts written off		6,957,722	9	[illegible]
Liabilities of Customers for Acceptances, as per contra		8,603,470	5	0
Liabilities of Customers for Endorsements, Guarantees, and other Obligations, as per contra		43,622,815	9	4
		£431,182,518	17	3

J. W. Beaumont Pease, *Chairman.*
Austin E. Harris, *Deputy Chairman.*

MEMBERS OF LLOYDS BANK, Ltd.

the books of the Bank at the Head Office, and with the certified returns from the Branches—the Cash in hand and with the Bank of England, the Balances with, and Cheques in course of collection verified the correctness of the Money at Call and Short Notice and the Securities representing the and are of opinion that such Balance Sheet is properly drawn up so as to exhibit a true and correct given to us, and as shown by the books and returns of the Bank.

Price, Waterhouse & Co.,
Chartered Accountants.

PROFIT AND LOSS ACCOUNT for the year ended December 31, 1929

Dr.		£	s.	d.	Cr.	£	s.	d.
To Interim Dividend on the "A" Shares for the half-year ended 30th June, at 16⅔ per cent. per annum, less Income Tax		958,197	1	4	By Balance brought forward from last year...	490,036	13	2
" Interim Dividend on the "B" Shares for the half-year ended 30th June, at 5 per cent. per annum, less Income Tax ...		28,745	18	5	" Net Profit brought in, after making provision for Rebate, Income Tax, Bad Debts and Contingencies	2,542,083	17	8
" Bank Premises Account		250,000	0	0				
" Staff Superannuation Fund ...		300,000	0	0				
" Dividend on the "A" Shares for the half-year ended 31st December, at 16⅔ per cent. per annum, less Income Tax ...	£958,197 1 4							
" Dividend on the "B" Shares for the half-year ended 31st December, at 5 per cent. per annum, less Income Tax ...	28,745 18 5							
" Balance to be carried forward to next year	508,234 11 4							
		1,495,177	11	1				
		£3,032,120	10	10		£3,032,120	10	10

STATEMENT PURSUANT TO THE COMPANIES ACT, 1929

Directors' Remuneration amounted to £57,185 19*s*. 8*d*. (exclusive of Remuneration paid to certain Directors by Subsidiary Companies, £8,999 14*s*. 4*d*.).

Profits of Subsidiary Companies for their respective years ending within the period covered by this Account have been included in the item " Net Profit brought in " to the extent of the dividends (in respect of this Bank's Shareholdings) declared and paid by those Subsidiary Companies.

Undistributed balances of Subsidiary Companies have been carried forward or placed to reserve or otherwise dealt with in the accounts of such Companies.

J. W. BEAUMONT PEASE, *Chairman*.
AUSTIN E. HARRIS, *Deputy Chairman*.

such as cheques received too late for presentation at the Clearing House,* postal orders, etc.

All Banks which are members of the Bankers' Clearing House keep Current Accounts with the Bank of England, and utilise their balances there as funds wherewith to satisfy the balance, if any, payable by them to the other " Clearing " Banks each day.

The London Clearing House is the Institution where the representatives of the leading London banks, which have seats at that Institution, meet to exchange the cheques, bills, etc., that are drawn upon, and are due for payment by, members of the Clearing House, or that are drawn upon, and are due for payment by, banks (not members of the Clearing House) for which the Clearing Bankers act as agents. The cheques, etc. held by *e.g.* Clearing Bank A, and presented at the Clearing House,

* Country cheques must reach the Clearing House by 12.30 p.m.

are offset against those held upon bank A by all the other Clearing Banks, and the final balance resulting from the transactions for the day is adjusted by an order drawn by the Clearing House clerk of each bank upon the account of the Clearing Bankers with the Bank of England. The Bank of England upon receipt of these orders makes the necessary transfers of the differences represented by the orders from or to the accounts of the Clearing Banks concerned. The Clearing House principle is not confined to London. There are also Clearing Houses in the large Provincial cities, where cheques, etc., drawn upon local banks, are cleared, or offset, upon the same principle, either through a local branch of the Bank of England, or through some other selected bank, where the Bank of England has no branch. Banks keep a record of their daily transactions with the Bank of England, consisting of withdrawals, payments to, and Clearing House transfers. These records are entered in the " Goldsmith's Book," or " Bank of England Book."

The item " Money at call and Short Notice, £26,484,814 12*s*. 6*d*." represents a liquid asset of another type which is more or less available in case of need. Loans are largely made by the London banks to bill-brokers " at call," *i.e.* they are repayable at any moment or at short notice. Bundles of " first-class " bills are deposited to cover these loans, a suitable margin over the amount of the loan being demanded in each case. The bills are so arranged that as far as possible they mature at or about the same date. Short loans are also made upon " Floaters " (Treasury Bills, Exchequer Bonds, Consol bearer certificates, or other sterling securities). Such loans are either " At call," or on " Short Notice " * (usually seven days). A large business is also transacted by the London banks in loans to stock-brokers. These loans usually run from " account to account," that is to say, from one Stock Exchange settling day to another. " Settling days " usually take place twice a month. The stockbroker, upon requesting a loan from account to account, deposits a parcel of approved securities, accompanied by a list whereon the securities are enumerated and valued at the " make up price " of the day. A margin of 15 per cent. or thereabouts is required by the lending bank to cover market fluctuations.

The item " Balances with Banks Abroad, £4,665,647 7*s*. 9*d*," represents the balances kept abroad by the bank with their foreign banker correspondents in order to finance their foreign exchange dealings and other international transactions.

" Treasury Bills, £27,180,000." These bills, as explained on p. 716, are issued at a discount by the Treasury, and are a much sought after means for short term investment, as the usual currency of these bills is three months. Nowadays, all banks and large financial institutions consider it incumbent to have a substantial holding of these bills.

" British Bills of Exchange, £8,179,603 13*s*. 10*d*."; and " Colonial and Foreign Bills, £4,265,672 14*s*. 0*d*." These items represent the total of the unmatured bills purchased by the bank from its customers and from bill brokers, under discount, as explained in Chapter XII, pp. 220 *et seq*.

* The loans liable to immediate call are styled " Call Money "; when made for one week, " Weekly Money "; and when the advance is from afternoon to morning, " Overnight Money."

The various items under the heading "Investments" are self-explanatory. The student will, however, note that the Reserve Fund on the Liabilities side of the balance sheet is more than represented by good securities. Banks are conspicuous examples of those institutions where it is eminently desirable that the reserves created out of profits should, in case of need, be immediately available in cash, and in order that this may be secured, a separate investment of the Reserve Fund in easily realisable outside securities is essential.

The items that appear under the heading "Shares in Subsidiary Companies" represent the company's investments in such companies in order to control their activities without amalgamation. This system of control allows the National Bank of Scotland, Ltd., to retain its right of note issue. With Lloyds Bank's Balance Sheet are circulated the Balance Sheets of the National Bank of Scotland and the Bank of London and South America. The investment in Lloyds and National Provincial Foreign Bank is made in conjunction with the National Provincial Bank, Ltd The Foreign Bank operates in Europe for the two English Banks.

The item "Loans and Advances, £191,010,596 6*s*. 8*d*." represents the total of the loans made by the bank to its customers and others, ordinarily with security but occasionally without, for longer periods than the short loans scheduled above. The custom as to these loans varies as between different banks, and as between London and Country banks. The general country practice is to allow customers an "overdraft" upon Current Account—a note being made at the head of each account of the limit of such overdrafts. London bankers, on the other hand, prefer that the customer's Current Account shall be maintained in credit, and a separate Loan Account opened to record the transactions arising out of any loan that may be granted, the proceeds of such loan, as and when made, being credited to the customer's Current Account. An equitable charge, in favour of the bank, is usually deposited with the securities lodged to cover the loan. Where Stocks and Shares are deposited as "cover" they must be actually transferred to the names of the nominees of the bank. Loans made to customers under these methods are usually repayable at a certain fixed date.

The rate of interest charged upon loans in London is usually 1 per cent. above the current "Bank Rate," with, as a rule, a minimum rate of 5 per cent. per annum; but the rate to be charged naturally varies according to the adequacy of the security and the reputation of the borrower.

"Items in transit, £3,910,386 4*s*. 6*d*." are those moneys in course of remittance between branches, etc., as explained on p 395.

The student will note that the item "Liabilities of Customers for Acceptances, £8,603,470 5*s*. 6*d*." appears upon both sides of the Balance Sheet. The item represents bills which have been accepted on behalf of customers, usually to meet liabilities due abroad in cases where a remittance of undoubted worth and negotiability is necessary. The customers who are accommodated in this manner are, of course, liable to the bank for these acceptances, hence the appearance of the item twice—once as representing the liability of the bank to the outside world, and again as showing the liability of the customers thus accommodated to the

bank. Accommodation of this description is not afforded to customers unless the sum involved is covered by securities, or by an ample credit balance on Current Account. A charge for commission is usually made for accommodation of this description. Similar remarks apply to "Liabilities of Customers for Endorsements, Guarantees, and other Obligations, £43,622,815 9*s.* 4*d.*"

On the liabilities side of the Balance Sheet the item "Rebate on Bills not due" which formerly appeared as a separate item, is now included in "Current, Deposit, and other Accounts." It is the practice of Bankers, when purchasing Bills from customers, to pass at once the amount of the discount charged upon the acceptances in daily totals to the credit of the "Discount Account" (through the "Bills received for Discount Register") in the General Ledger. It will be obvious, therefore, that, at any given closing date, credit will have been taken for an amount of discount on bills which have not yet matured, and the discount upon which has not therefore all been earned in respect of the period covered by the accounts. In order, therefore, that the current Profit and Loss Account may not receive credit for a larger sum of discount than has actually been earned during the period, the amount of the unearned discount is calculated and carried forward to the next half-year. To effect this, the Discount Account in the General Ledger is debited with the "rebate," and a like sum is brought down on the credit side of the account as a Liability in the same manner as was explained to be the case with the various "provisions" described on p. 508.

The item, "Current, Deposit and other Accounts, £351,644,168 4*s.* 8*d.*," besides including the item "Rebate on Bills not due" which formerly appeared as a separate item, also includes unclaimed dividends and sums due to other banks, and probably includes also such items as have been held in suspense pending their final allocation.

The remainder of the Liabilities set out in the Balance Sheet are self-explanatory.

The Statement Pursuant to the Companies Act, 1929, should be noted.

In common with some other undertakings it is frequently the practice of Banks to create "Secret Reserves," that is to say, Reserves are made out of profits which are not disclosed in the published accounts. Perhaps, in the case of banks, the most frequent methods in which Secret Reserves are created are—

(*a*) The excessive depreciation of the Bank Premises owned. The valuable Freehold Premises owned by some banks stand at much below their actual value in the published accounts.

(*b*) The maintenance of Assets at cost in cases where they have greatly appreciated

(*c*) The omission of Assets altogether from the Balance Sheet.

This is not a suitable place to discuss the ethics of the question of the creation of Secret Reserves. From a banking standpoint, however, there is no doubt that the creditors and customers of a bank have but little ground of complaint when the financial position of their debtor is in reality stronger than is disclosed by the accounts published.

All the leading London banks possess many suburban and

BALANCE SHEET

LIABILITIES.	Issued Capital, Fully Paid. £	s.	d.	£	s.	d.
Authorised Capital—						
4,000,000 7½ per cent. Cumulative Preference Shares of £1 each	4,000,000	0	0			
2,500,000 Ordinary Shares of £1 each	2,214,848	0	0			
6,500,000				6,214,848	0	0
General Reserve Account				1,000,000	0	0
Special Reserve Account—						
Transferred from Profit and Loss Account	50,000	0	0			
Less Amount written off Freehold Property	26,434	12	7			
				23,565	7	5
Sundry Creditors—						
Deposit and Current Account Balances—Banking Department	1,121,510	5	6			
On Open Accounts and Credit Balances	1,211,796	9	5			
				2,333,306	14	11
Amounts owing to Subsidiary Companies				3,847	9	2
Staff Pension Account				77,626	17	3
Unclaimed Dividends				5,248	18	0
Profit and Loss Account—						
Balance brought forward	116,033	3	9			
Less Shareholders' Vote to Staff Funds	7,500	0	0			
	108,533	3	9			
Add Net Profit for Year	834,188	0	11			
	942,721	4	8			
Less Transferred to Special Reserve Account ... £50,000 0s. 0d.						
Interim Dividend on Preference Shares ... £150,000 0s. 0d.						
Interim Dividend on Ordinary Shares ... £110,794 2s. 0d.						
	310,794	2	0			
				631,927	2	8
A. D. DEAKIN, F.C.A., *Chief Accountant.*				£10,290,370	9	5

PROFIT AND LOSS ACCOUNT for

Dr.

	£	s.	d.
To Salaries, Wages, Commissions, National Health Insurance and Staff Expense	834,339	18	6
„ Directors' Fees (exclusive of £5,100 payable by Subsidiary Companies)	12,500	0	0
„ Legal and Professional Charges	8,579	3	5
„ Rent, Rates, Taxes, Water and Lighting	122,909	6	3
„ Printing, Stationery, Stamps and Advertising	254,734	17	11
„ Licences, Insurance, Bank Charges and Telephones	30,903	14	0
„ General Trade Expenses	38,513	16	10
„ Transport Expense	212,141	2	0
„ Barnes Property Expense	9,849	1	4
„ Interest on Deposit and Current Accounts	38,981	13	5
„ Pension Contributions (for Employees)	18,483	1	5
„ Departmental Expenses and Sundry Allowances	91,694	6	7
„ Repairs and Renewals	57,157	14	3
„ Depreciation—Property, Plant, Machinery, Fixtures, Fittings, etc.	89,486	7	6
	1,820,274	3	5
Balance, being Net Profit for Year	834,188	0	11
	£2,654,462	4	4

The profits of the Subsidiary Companies for their respective financial years ended within the year to the 31st January, 1930, have been included in the profits of Harrods Ltd. to the extent of the Dividends received from such subsidiaries during the year.

ASSETS.

	£	s.	d.	£	s.	d.
Purchase of Original Business (at cost)				90,000	0	0
Freehold Property (at cost, less depreciation)				3,988,348	16	8
Leasehold Property (at cost, less depreciation)				212,879	12	8
Plant, Machinery, Fixtures and Fittings (at cost, less depreciation)				730,285	4	6
Horses, Vans and Motor Rolling Stock (at cost, less depreciation)				25,006	3	6
Stock-in-Trade (as certified by Managing Director)—						
General	1,074,423	11	11			
Sundry	3,233	18	0			
				1,077,657	9	11
Sundry Debtors (including Accrued Interest) less Provision for Bad and Doubtful Debts				1,221,330	5	3
Amounts owing by Subsidiary Companies				12,742	2	9
Unexpired Payments				16,804	11	7
Shares in Subsidiary Companies—						
334,525 Dickins & Jones Ltd. Ordinary Shares of £1 each, fully paid (at cost)	702,190	17	6			
299,848 D. H. Evans & Co. Ltd. Ordinary Shares of £1 each, fully paid (at cost)	580,860	15	6			
Sundry Shares (at cost, less amounts written off)	6,496	13	11			
				1,289,548	6	11
Investments at Cost—						
£871,506 5*s.* 9*d.* 5 per cent. War Loan 1929–47	867,286	3	9			
£469,006 7*s.* 4*d.* 3½ per cent. Conversion Loan	361,150	13	3			
54,000 Harrods (Buenos Aires) Ltd. Deferred Shares of 1*s.* each, fully paid	2,700	0	0			
				1,231,136	17	0
Cash on Deposit, at Bank and in Hand				394,632	18	8
				£10,290,370	9	5

WOODMAN BURBIDGE,
Chairman and Managing Director } *Directors.*
FRANK R. CHITHAM,

the Year ended 31st January, 1930

Cr.

	£	s.	d.	£	s.	d.	£	s.	d.
By Gross Profit on Trading							2,458,978	4	0
„ Transfer Fees				708	13	0			
„ Net Rents Receivable				13,423	17	10			
„ Dividends Received—									
Subsidiary Companies:									
Dickins & Jones Ltd.	40,143	0	0						
D. H. Evans & Co. Ltd.	74,784	0	0						
Sundry Shares	503	13	7						
	115,430	13	7						
Interest receivable:									
Government Securities, etc.	65,920	15	11	181,351	9	6			
							195,484	0	1
							£2,654,462	4	4

WOODMAN BURBIDGE } *Directors.*
FRANK R. CHITHAM

A. D. DEAKIN, *Chief Accountant.*

BALANCE SHEET

	£	s.	d.	£	s.	d.	£	s.	d.
Authorised Capital—									
80,000 5½% Cumulative Preference Shares of £10 each				800,000	0	0			
120,000 6% Preferred Ordinary Shares of £5 each				600,000	0	0			
1,500,000 Deferred Ordinary Shares of £1 each				1,500,000	0	0			
				2,900,000	0	0			
Issued Capital—									
80,000 5½% Cumulative Preference Shares of £10 each, fully paid				800,000	0	0			
120,000 6% Preferred Ordinary Shares of £5 each, fully paid				600,000	0	0			
1,150,000 Deferred Ordinary Shares of £1 each, fully paid				1,150,000	0	0			
							2,550,000		
4½% First Mortgage Debenture Stock (secured by Trust Deed, dated 9th February, 1899)—									
Authorised and Issued				1,000,000	0	0			
Interest accrued thereon to date				11,250	0	0			
							1,011,250		
4½% Second Mortgage Debenture Stock (secured by Trust Deeds dated 10th October, 1912, and 9th October, 1923)—									
Authorised and Issued				1,250,000	0	0			
Less Redeemed to date (re-issuable)				35,766	0	0			
				1,214,234	0	0			
Interest accrued thereon to date				20,490	4	0			
							1,234,724		
Share Premium Account (as per last account)				152,696	14	3			
Buildings, Plant, etc., Depreciation Reserve Account (as per last Account)	100,400								
Add Profit on Land and Premises sold during year carried to this account	17,799								
	118,199								
Deduct Amount written off Freehold Land, Buildings, Plant, etc., for year 30th September, 1929	31,425								
				86,774	0	0			
General Reserve Account				500,000	0	0			
First Debenture Stock Redemption Sinking Fund (Investment *per contra*)				3,530					
Creditors and Reserves for Accruing Expenses and Contingencies							998,002		
							147,351		
Bills Payable							10,017	13	
Amounts owing to Subsidiary Companies							51,990		
Pension and Grants Fund							57,739		
Profit and Loss Account—									
Balance at 30th September, 1928				233,516					
Balance for year ended 30th September, 1929, as per Account	160,624								
Less First Mortgage Debenture Interest 45,000 0 0									
Second Mortgage Debenture Interest 54,640 10 8									
Interim Dividend on Preference Shares 22,000 0 0									
Interim Dividend on Preferred Ordinary Shares 18,000 0 0									
	139,640	10							
				20,983	11				
				254,500					
Less Debenture Stock Redemption Sinking Fund				5,825					
							248,675		
							£6,309,751		

Note.—The Company has entered into certain Guarantees in respect of the Bond Issues of the Tonopah & Tidewater Railroad Co.

		£	s.	d.
Mines and Deposits, at Cost (including an amount (£600,000) added on reconstruction of Capital under the Borax Consolidated, Ltd., Act, 1907), *less* Sales at realised prices		3,200,168		
Note.—The above item includes the cost of acquiring the whole Share Capitals of certain Subsidiary Companies (whose sole assets consist of Mining Properties), which cost cannot be separately ascertained.				
Capital invested in Subsidiary Mining, Railway and Trading Companies—				
Shareholdings at Cost, *less* amounts written off	590,011			
Debentures at Cost	155,727			
		745,739	5	
Freehold Land, Buildings, Plant, Railways, Machinery, etc.—				
At Cost, *less* Sales (subject to £17,799 16*s.* 3*d.* Profit on Sales during year to 30th September, 1929, carried to Depreciation Reserve Account)	1,958,223			
Deduct Depreciation written off to date	831,025	1,127,198		
		£5,073,106		
Stocks at Mines, Factories and in Transit, at or under Cost		297,819		
Investment on Account of First Debenture Stock Redemption Sinking Fund, *per contra*—				
Sun Life Assurance Society—value of Policies		258,530		
British, Foreign and Colonial Government Securities		278,819		
Debtors and Prepaid Expenses and Expenditure in Suspense		180,974		
Advances to, and Current Accounts with, Subsidiary Companies		133,286		
Cash at Bankers, in hand and at Branches		87,214		

LEVEN AND MELVILLE, *Chairman.*

R. C. BAKER, *Managing Director.*

		£	s.	d.
		£6,309,751	11	9

THE MALAY STATES TOBACCO PLANTATIONS, LIMITED

CROP COST ACCOUNT

Dr. Cr

Date	Particulars	£	s.	d.	£	s.	d.	Date	Particulars	£	s.	d.
19— Dec. 31	To Plantation Expenses—							19— Dec. 31	By Proceeds of Sale of Tobacco	84,596	16	4
	Coolie Brokerage and Passage Money	4,338	2	6								
	Hospital Expenses	1,429	3	2								
	General Expenses	2,107	0	5								
					7,874	6	1					
" 31	" Plantation Wages—											
	Planting Wages	16,853	4	8								
	Manufacturing Wages	5,208	3	6								
					22,061	8	2					
" 31	" Plantation Salaries—											
	European Staff	8,421	6	4								
	Native Overseers	2,741	10	4								
	Watchmen	1,010	0	10								
					12,172	17	6					
" 31	" Replacements and Repairs—											
	Buildings and Granges ...	4,927	4	10								
	Ways and Roads	2,101	10	6								
	Railway	237	8	9								
	Steam Launch	367	8	4								
	Lighters	122	10	2								
	Pier	346	11	11								
					8,102	14	6					
" 31	" Loss by death of Coolies				1,228	10	4					
" 31	" Commission on Crop to European Staff ...				5,098	4	6					
" 31	" Balance, being gross profit carried to Profit and Loss Account				28,058	15	3					
					£84,596	16	4			£84,596	16	4

THE MALAY STATES TOBACCO PLANTATIONS, LIMITED

PROFIT AND LOSS ACCOUNT, for the year ended December 31, 19—

Dr.		£	s.	d.	£	s.	d.		Cr.	£	s.	d.	£	s.	d.
19— Dec. 31	To London Office Expenses, Salaries, Audit Fee, etc.	1,624	2	4				19— Dec. 31	By Balance from Crop Cost Account				28,058	15	3
" 31	" Directors' Fees	1,500	0	0	3,124	2	4	" 31	" Transfer Fees				7	10	0
" 31	" Income Tax				1,009	10	4	" 31	" Interest Account				521	2	4
" 31	" Depreciation on London Office Furniture				3	2	0								
31	" Balance carried down, being net profit for the year				24,450	12	11								
					£28,587	7	7						£28,587	7	7
19— Dec. 31	To Interim Dividend paid Nov. 5				5,662	10	2	19— Dec. 31	By Balance brought from last account	9,462	15	8			
" 31	" Transfer to Reserve Fund				5,000	0	0		*Less* Final Dividend paid June 10	5,662	10	2	3,800	5	6
" 31	" Balance carried down				17,588	8	3	" 31	" Balance brought down, being net profit for the year				24,450	12	11
					£28,250	18	5						£28,250	18	5
								19— Dec. 31	By Balance brought down				17,588	8	3

THE MALAY STATES TOBACCO PLANTATIONS, LIMITED

BALANCE SHEET, December 31, 19—

	£	s.	d.	£	s.	d.
Nominal Capital—						
150,000 Shares of £1 each	150,000	0	0			
Subscribed Capital—						
125,000 Shares of £1 each	125,000	0	0			
Less unpaid calls	500	0	0	124,500	0	0
Reserve Account—						
As per last Balance Sheet	35,000	0	0			
Added this year	5,000	0	0	40,000	0	0
Sundry Creditors				12,941	12	6
Bills Payable				38,000	0	0
Profit and Loss Account (Balance)				17,588	8	3
				£233,030	0	9

	£	s.	d.	£	s.	d.
Plantations Account at cost				110,000	0	0
Furniture in London at cost less amounts previously written off	41	8	3			
Less Depreciation for the year	3	2	0	38	6	3
Sundry Debtors (less provision)				10,941	10	6
Plant, Loose Tools, etc.—						
As per Valuation December 31, last year	4,201	10	2			
Additions during the year	3,281	10	1			
	7,483	0	3			
Less Amount written off as per Valuation, December 31	3,210	0	3	4,273	0	0
Expenditure to date on next Crop				64,450	18	6
Investments at Cost				29,132	9	0
Cash at Bank	14,140	10	2			
" in hand	53	6	4	14,193	16	6
				£233,030	0	9

The student will observe that the interest and dividends payable out of profits are shown on the Balance Sheet, not in the Profit and Loss Account. This is a common and convenient practice.

The annual statements of the Malay States Tobacco Plantations, Ltd. (pp. 568–70), offer a good example of the accounts published by an English company owning and working a plantation abroad.

The tobacco crop is not ready for shipment until the close of the year, and does not reach Amsterdam (the tobacco market of Europe) for sale before May in each year. This fact leads to the somewhat unusual position disclosed in the accounts under review. The student will note that the "Crop Cost Account" deals with the crop of the previous year which, during the following year, reached Europe and was sold for £84,596 16*s.* 4*d.* The tobacco is sold outright by auction and tender, so that there are no stocks to be dealt with in the accounts.

Reference to the Balance Sheet will disclose an item: *Expenditure to date on next Crop*, £64,450 18*s.* 6*d.*" This represents the cost of the crop still unmarketed up to the close of the financial year, and is, in fact, within a short amount of the final total cost of the crop which, by this date, is in the drying sheds. As this amount entirely represents expenditure relative to the crop which is to be sold for the benefit of the coming year's accounts, it is carried forward as an asset in suspense so far as the current accounts are concerned. When the expenditure upon the tobacco is complete, the whole amount will be transferred to the "19— Crop Cost Account."

It will be noted that the Crop Cost Account practically takes the form of a Trading Account and contains the whole of the expenditure, upon the plantation, of the moneys remitted from this country to the company's manager in the East. The "*Replacements and Repairs*, £8,102 14*s.* 6*d.*," will appear to be heavy at first sight, but it is the usual practice of all companies of this character to charge all building and other kindred expenditure against the revenue of the year. The tropical climate, white ants, and other causes render the life of the wooden or rattan erections in general use of short duration only, and expenditure of this nature is therefore very rarely capitalized unless unusually heavy in amount, in which case it is spread over a term of years. It is not uncommon among tea-planters—in India especially—to treat Machinery and Plant in the same manner. In these cases, therefore, the "Plantation Account," "Estate Account," or "Block Account," appearing in the Balance Sheet, as representing the chief asset, remains at a fixed figure from year to year.

The "*Loss by death of Coolies*, £1,228 10*s.* 4*d.*," arises from the fact that the labour used on the plantation is imported, and upon leaving home an advance is made to Coolies and treated as a loan to be worked off in labour subsequently. When Coolies die, therefore, any sums still to their debit on "Advance Account" become a loss to the company and must be written off as such

The Profit and Loss Account deals with the London expenditure of the company, including the dividends paid, and is self-explanatory.

Reference to the Balance Sheet will show that this is a case

MESSRS. JAMESON, CONWAY

PROFIT AND LOSS ACCOUNT,

Dr.

19—				£	s.	d.
Dec. 31	To Counsels' Fees			3,650	6	6
" 31	" Disbursements (made on behalf of Clients and charged in bills as per Contra)			8,485	10	6
" 31	" Stationery on behalf of Clients			1,095	8	6
" 31	" Shorthand Writers on behalf of Clients			140	9	8
" 31	" Advertising on behalf of Clients			109	16	9
" 31	" Balance carried down			23,450	9	4
				£36,932	1	3
19—						
Dec. 31	To Salaries of Staff			6,844	19	6
" 31	" Housekeeping, Coal, Gas, Water and Rates, etc.			568	10	2
" 31	" Office Expenses and Incidentals			639	16	6
" 31	" Office Stationery			394	16	9
" 31	" Rent			700	0	0
" 31	" Certificate Duty			83	10	0
" 31	" Accountants' Charges			100	0	0
" 31	" Allowances and Bad Debts			309	10	6
" 31	" Proportion of Lease Account written off			300	0	0
" 31	" Balance carried down			14,525	0	8
				£24,466	4	1
19—		£	s.	d.		
Dec. 31	To Mr. Jameson—					
	Interest on Capital	300	0	0		
	Share of Profit	5,530	0	4		
				5,830	0	4
" 31	" Mr. Conway—					
	Interest on Capital	250	0	0		
	Share of Profit	4,147	10	4		
				4,397	10	4
" 31	" Mr. Phelps—					
	Interest on Capital	150	0	0		
	Share of Profit	4,147	10	0		
				4,297	10	0
				£14,525	0	8

BALANCE SHEET,

	£	s.	d.	£	s.	d.
Partners' Capital Accounts—						
Mr. Jameson	6,000	0	0			
Mr. Conway	5,000	0	0			
Mr. Phelps	3,000	0	0			
				14,000	0	0
Partners' Drawing Accounts—						
Mr. Jameson	2,100	0	0			
Mr. Conway	1,850	0	0			
Mr. Phelps	1,520	0	0			
				5,470	0	0
Sundry Creditors—						
Sundry Clients	3,200	10	2			
Counsels' Fees unpaid	2,840	11	0			
Parliamentary Disbursements	3,800	11	2			
Sundry Persons	450	10	1			
				10,292	2	5
				£29,762	2	5

AND PHELPS, SOLICITORS
for the year ended December 31, 19—

Cr

		£	s.	d.
19— Dec. 31	By Costs charged out to Clients (including Disbursements as per Contra made on behalf of Clients charged in Bills)—			
	£ s. d.			
	Chancery 5,641 10 2			
	Common Law 3,261 5 9			
	Parliamentary 9,962 16 8			
	Agency 17,896 10 4	36,762	2	11
„ 31	„ Copies of Documents supplied	169	18	4
		£36,932	1	3
19— Dec. 31	By Balance brought down	23,450	9	4
„ 31	„ Premiums from Articled Clerks	500	0	0
„ 31	„ Interest and Commission	125	14	9
„ 31	„ Rents (Sublettings)	240	0	0
„ 31	„ Directors' Fees earned by the Partners	150	0	0
		£24,466	4	1
19— Dec. 31	By Balance brought down	14,525	0	8
		£14,525	0	8

December 31, 19—

	£	s.	d.	£	s.	d.
Premium on Lease Account, as per last Balance Sheet ...	920	0	0			
Less Amount written off	300	0	0	620	0	0
£200 Consols (Stamp Duties, Investment) at cost				197	10	0
Furniture and Fittings, as per last Balance Sheet				1,000	0	0
Sundry Debtors—						
Chancery	5,842	9	1			
Common Law	3,241	16	4			
Parliamentary	6,891	14	1			
Agency	5,844	6	4	21,820	5	10
Cash at Bank	1,452	10	6			
Cash held on behalf of Clients	2,562	0	0			
Cash on Deposit	2,000	0	0			
Cash in hand	109	16	1	6,124	6	7
				£29,762	2	5

where the Plantations Account is maintained at a fixed figure, no additions having been capitalized during the year.

The "*Sundry Debtors*, £10,941 10*s*. 6*d*.," is almost entirely composed of "Advances to Coolies," and, as previously explained, does not contain any outstanding accounts for tobacco sales, which are "Cash Sales" to all intents and purposes.

The remaining items in the Balance Sheet do not require explanation.

The annual accounts of Messrs. Jameson, Conway and Phelps, solicitors (pp. 572–3), furnish an example of a form frequently employed, especially by the larger firms in the profession.

The student will note that the first section of the Profit and Loss Account is credited with the gross amount of the bills of costs for the year's work. The debits appearing in the same section relate solely to the various disbursements which have been made on behalf of clients, and have been duly included in the costs appearing on the credit side of the account. The balance of this account does not, therefore, represent in any way the gross profit made, but merely shows the net amount of the fees earned during the year for the professional work accomplished.

The second section of the Profit and Loss Account (to which the above net total of fees earned has been carried down) is charged with all the expenses incidental to the carrying on of the office work of the firm, such as Salaries, Stationery, Rent, etc., and shows a balance which represents the Net Profit earned by the firm. This Net Profit is carried down to the appropriation section, and, after charging interest upon capital, is then divided amongst the partners in accordance with the terms of the partnership agreement.

Duplicate copies of all the bills of costs sent in are usually collected every half-year, and bound in half-yearly departmental volumes. In addition to the bills actually sent in there will always exist in a solicitor's office bills, frequently termed "loose bills," which consist of loose sheets on which the charges on uncompleted matters are entered. In order that the actual work completed within the year may be properly taken credit for, it is necessary to pass a Journal entry through the books debiting in detail the individual clients concerned, and crediting "Costs Account" with the total of the amount represented by these loose bills. Care must, however, be taken to reverse these entries when, in due course, the bills are completed and bound in their respective half-yearly volumes.

In some firms it is the practice to take credit for such bills only as have been actually delivered, the matter being treated upon a cash basis. This, however, is an unsatisfactory method of procedure, as, if large matters remain open at the close of a period, the succeeding Profit and Loss Account is unduly credited with work which has been largely accomplished in a previous period.

On the other hand, solicitors frequently receive payment in advance for work which they undertake to perform. In such cases care must be taken that credit is only taken for such portion of the work as has been actually completed within the period covered by the accounts. The balance of the payment in advance must be treated as clients' moneys in hand.

It will be noted that the sum received as "Premiums from

Articled Clerks, £500," has been credited to the Profit and Loss Account for division amongst the partners, together with the general profits.

It is the practice with some firms to credit all premiums received from this source to the individual partner to whom the clerk or clerks in question are articled. In these cases the premiums would not, of course, appear in the Profit and Loss Account, but would be credited direct to the Drawing Account of the particular partner concerned.

When, as sometimes happens, such premiums are paid in advance in a lump sum, they should be apportioned in appropriate instalments over the period they cover, usually five years, the unearned balance being carried forward by means of a Suspense Account.

The small cash fees earned by the partners as Commissioners of Oaths for affidavits, declarations, etc., are almost invariably, as in the present case, treated as the personal earnings of the individual partner concerned, and do not appear in the accounts of the firm at all.

On referring to the Balance Sheet it will be noted that the Capital Accounts of the partners consist of "fixed" amounts, and that all drawings, interest and share of profits are dealt with in the separate Drawing Accounts of the partners in the manner previously explained in Chapter XV. The credit balances of these accounts are separately set out in the Balance Sheet, and show the amount which each partner is entitled to withdraw as at the date of the Balance Sheet.

It will also be noted that a premium has been paid for the lease of the offices occupied by the firm, which is being gradually extinguished by transfers to the debit of the Profit and Loss Account.

The Investment (Consols £200) stands in the names of the senior partner and the Secretary of Inland Revenue, and is maintained in order that stamp duties may be paid by cheque instead of by cash only. When this procedure is followed, cheques will be accepted at Somerset House in payment of stamp duties, and this practice affords considerable convenience.

It will be noted that the furniture has not been depreciated, a recent valuation having proved higher than the sum at which the furniture stands in the books of the firm.

The student will note that no credit has been taken for the stock of stationery in hand at the close of the period. The value of such stock frequently amounts to a considerable sum, and, strictly speaking, it should be credited in the Profit and Loss Account. and set out in the Balance Sheet as an Asset in the ordinary way,

It will also be noted that all moneys held on behalf of clients are stated separately, and are represented by distinct and separate accounts at the firm's bank. This is a statutory requirement as regards solicitors (Solicitors' Account Rules, 1935) and is a practice to be strongly recommended to members of the other professions, *e.g.* accountants.

The accounts are otherwise self-explanatory.

The accounts of The Cunard Steam Ship Company Ltd. (pp. 574–5), will be of interest to the student. The Profit and Loss Account is published in condensed form. No details are given as

THE PRUDENTIAL ASSURANCE COMPANY, LIMITED

REVENUE ACCOUNT F THE ORDINARY BRANCH

For the Year ending 31st December, 1929, in respect of Life Assurance Business.

	£	s.	d.		£	s.	d.
Amount of Life Assurance Fund at the beginning of the year	87,105.293	12	8	Claims under policies paid and outstanding— By death .... £2,254,127 9 10 By maturity 7,455,357 19 11	9,709,485	9	9
Premiums	11,713,684	7	10	Surrenders	1,113,143	12	5
Consideration for annuities granted	88,151	14	4	Bonuses surrendered for cash	133,293	11	11
Interest and Dividends .... £5,038,715 13 6 *Less* Income Tax 734,391 8 7	4,304,324	4	11	Annuities	146,197	9	6
Profit on Reversions realized	51,490	8	8	Commission	661,595	9	0
				Expenses of Management	620,372	11	0
				Transfer to Investments Reserve Fund	500,000	0	0
				Transfer to Profit and Loss Account	273,471	0	0
				Amount of Life Assurance Fund at the end of the year	90,105,385	4	10
	£103,262,944	8	5		£103,262,944	8	5

NOTE.—During the year 80,532 policies were issued for a sum assured of £17,606,948 18*s.* 0*d.* The amount received by way of single premium was £1,049,768 17*s.* 3*d.* The yearly renewal premium income was £1,091,088 12*s.* 5*d.*

REVENUE ACCOUNT OF THE INDUSTRIAL BRANCH

For the Year ending 31st December, 1929, in respect of Industrial Assurance Business.

	£	s.	d.		£	s.	d.
Amount of Industrial Assurance Fund at the beginning of the year	113,108,057	13	9	Claims under policies paid and outstanding—			
Premiums	17,385,174	16	5	By death £5,529,005 7 8			
Interest, Dividends and Rents ... £6,567,063 15 5				By maturity 5,070,848 18 9	10,599,854	6	5
Less Income Tax 401,588 0 6	6,165,475	14	11	Surrenders	1,854,257	1	1
				Commission	2,625,484	14	2
				Expenses of Management ...... £2,400,635 3 10 *Less* amount received from General Branch for Approved Societies' expenses 715,781 14 2	1,684,853	9	8
				Transfer to Investments Reserve Fund	500,000	0	0
				Bonus allocation to members of Company's out-door staff	528,497	8	2
				Transfer to Profit and Loss Account	651,529	0	0
				Transfer to Common Contingency Fund	250,000	0	0
				Transfer to Special Contingency Fund	483,333	6	8
				Amount of Industrial Assurance Fund at the end of the year	117,480,898	18	11
	£136,658,708	5	1		£136,658,708	5	1

NOTE.—During the year 2,365,131 policies were issued, for a maximum sum assured of £63,182,236.

to the particular assets which have been depreciated, nor is the total amount of depreciation provided for shown. The only credit appearing in the account is the aggregate of the gross profit derived from the various voyages made by the company's ships.

In the Balance Sheet the assets are stated *net*, after provision for depreciation, but the amount of the provision is not disclosed. Particulars relating to subsidiary companies are shown in compliance with the regulations of the *Companies Act*, 1929. It will be noted that the term Reserve *Fund* is employed, although, apparently, there is no specific investment of the fund which is distributed over the various assets of the company.

The "open voyage accounts" (bracketed with the Sundry Creditors) represent the balances on various voyage accounts now in progress. It will be noted that the specific security held by the Debenture Stock Holders, and against the Mortgage on Freehold Property, is stated.

The Balance Sheet and Profit and Loss Account of Drage's Limited (pp. 576–7), are good examples of the accounts of a large Hire-Purchase business. The corresponding Balance Sheet figures for the preceding year are given to facilitate comparison—a very useful feature. It will be seen that the balances on purchaser's accounts are shown as "Sundry Debtors *less* Reserves." In such a business, considerable reserves are necessary for bad debts and losses which may arise on furniture, etc., taken back under broken contracts. The profit included in such debts is reserved for in the "Sundry Creditors and Reserves" figure. Presumably details of the Reserves are withheld as they might give valuable information to competitors. The order in which the assets are marshalled does not precisely conform to recognised usage, since debtors appear between Stock and Properties instead of between Cash and Stock. The explanation is probably that the company considers that the Stock is more readily realisable than the bulk of the debtors, which may only be collectible over a period of anything up to four years.

The Profit and Loss Account contains the minimum of information, again probably because of trade competitors.

The eighty-first annual accounts of the Prudential Assurance Company, Ltd. (pp. 580–1), will be interesting to the student who is unfamiliar with the accounts of assurance companies as published in accordance with the regulations of the *Assurance Companies Act*, 1909. This act came into force on July 1, 1910, and the accounts of all assurance companies must be framed in accordance with the schedules attached to it. The accounts printed here are the Revenue Accounts of the "Ordinary" and "Industrial" Branches. In addition to these accounts, and in compliance with the regulations of the Act, Revenue Accounts are also published for the Fire, Employers' Liability, Miscellaneous Insurance, Sinking Fund business, Marine Insurance, and Contingency Fund business. These Revenue Accounts are simple in form, and consist, on the debit side, of the amount of the fund at the beginning of the year, the premiums received, and interest on the investments, and, on the credit *side*, of the claims paid, expenses of management, and the amount of the fund at the end of the year. (As to the P. and L. Account and Balance Sheet, see p. 584.)

The first thing the student will probably notice is that the 1909 Act did not embrace the opportunity afforded of bringing assurance accounts into line with modern accounting principles. The items of which the Revenue Account is composed still appear, as under the 1870 Act, on the wrong side of the account from the modern book-keeper's point of view. It is not the company, it should be noted, but the statute which is in fault, as the first schedule of the Act of 1909 prescribes the form here employed. The form prescribed is not a Cash Account but an Income and Expenditure Account, for reference to the Balance Sheet shows that outstanding items both of income and expenditure have been taken into account, *e.g.* "annuities due and unpaid," "outstanding premiums," "outstanding commission and expenses," "outstanding interest, dividends, and rents." It is a matter of regret, therefore, that the Act did not bring the Revenue Account into technical accord with the accepted form as employed under Double Entry methods.

Turning to the details appearing in these Revenue Accounts, it will be noticed that the Interest and Dividends are stated *gross* and the income tax deducted therefrom in accordance with the regulations. On the other side of the account the claims are separated as between payments upon "death" and at "maturity," and the words "paid and outstanding" are added.

The Schedules of the 1909 Act, as published by every assurance company, in so far as they apply, are filed annually with the Board of Trade, and are printed in a "Blue Book," which in due course finds its way to the table of the House of Commons.

The item "Surrenders" represents the sums paid by the Company to those of the Policy-holders who elect to discontinue the policies they hold, receiving therefor a proportionate sum of the amount covered by the policies they surrender. Policies do not usually carry any "surrender value" until the premiums for at least three years have been paid in the "Ordinary" Branch, or two years in the case of "Endowment" policies. Under certain circumstances a surrender value is allowed upon Industrial policies also, but such payments are *ex gratia,* and not a matter of right.

When the "Surplus" for the year has been ascertained, a certain proportion of it is appropriated as a "bonus" to the policy holders, payable when their policies mature. Some policy holders prefer to draw this bonus in Cash, at reduced amounts, hence the item "Bonuses surrendered for Cash" in the Revenue Account. In the Ordinary Branch, the bonus so appropriated amounted to £2 6*s*. per cent. under "Endowment" policies, and £2 10*s*. per cent. under "Whole-Life" policies.

The item "Commission" represents the sum paid during the period to the Company's agents by way of a percentage upon the premiums collected upon the Policies issued through the efforts of the agents.

It will be noted that the balances shown upon the Revenue Accounts are carried forward to the next financial period. The balances of the Revenue Accounts do not represent the profits earned during the period, as is the case with a commercial Profit and Loss Account. The profits of an assurance company can only be ascertained by means of a periodical valuation, which

takes place, in the case of the company under review, every year, but in the case of some companies every fifth year.

A statement called a "Valuation Balance Sheet" is prepared, and the unexpired risks running upon the whole of the policies issued by the Company are ascertained by means of an actuarial valuation, and the total of the outstanding Liability thus arrived at is deducted from the "Life," or other, Assurance Fund as on the date of the valuation. The "surplus" thus disclosed is the amount available for appropriation.

The valuation for the year under review was made by the Company's actuary who employed the "British Offices O^{M} table" of mortality in the Ordinary Branch, and the "English Life Tables (No. 8)" in the Industrial Branch. The rate of interest assumed in both branches was 3 per cent. In the ordinary and Industrial Branches the result of the valuation was as follows :

	£	s.	d.		
ORDINARY BRANCH—				INDUSTRIAL BRANCH—	
Life Assurance Fund 31st December 1929 ...	90,878,856	0	0	Life Assurance Fund 31st December, 1929 ...	119,894,259
Less Reserve for net liability ...	87,421,664	0	0	*Less* Reserve for net liability ...	113,878,268
Surplus (including balance from last year)	£3,457,192	0	0	Surplus (including balance from last year)	£6,015,991

Neither the Profit and Loss Account nor the Balance Sheet are shown here, owing to the voluminous character of the documents (particularly the latter) and the technical difficulty of reproducing them in readable form in a book of this small size.

Of the Balance Sheet it may be remarked that, in accordance with the requirements of the Third Schedule, it gives considerable detail with regard to the Investments held by the company. Amongst the Investments, the deposits required by Section 2 of the Act (in respect of the various classes of insurance business transacted) are set out separately. The assets are now classified under many more headings than were hitherto demanded by the statutory requirements. No separate Annuity Fund appears in the Balance Sheet, and it is presumed that this fund is merged in the Life Assurance Fund. The debts shown to be due to and by the Company reveal that "re-insurance" business is undertaken. This indicates that when the company accepts a risk beyond certain limits, the excess risk is re-insured with another company. In turn, this company underwrites a portion of the excess risks of other companies. The financial strength of the company is demonstrated by the fact that "Reserve" and "Contingency" Funds have been accumulated to the amount of £14,355,617. The balances shown upon the Revenue Accounts are carried forward to the next financial period, and are scheduled amongst the liabilities in the Balance Sheet. The item "Agents' Balances," £115,116 3*s*. 3*d*., scheduled in the Balance Sheet as an asset, may appear to be heavy. It must, however, be remembered that, in the case of the Industrial Branch, each agent remits the premiums collectible (known as the Agents' "Collect-

ible Debit ") for the one week during the course of the following week, and that, therefore, at any given date, a considerable sum is necessarily in the hands of the company's agents awaiting remittance. The item in question will also, doubtless, include some " arrears." The debts due from agents are not allowed, however, to exceed a fixed multiple of their weekly " collectible debit."

The student will be wise to study the accompanying accounts in conjunction with the chapter on " Assurance Accounts " (Chap. XXIII.), where the forms of accounts are fully discussed.

On pp. 586–93 will be found the published accounts of Spiers & Pond Limited, the well-known hotel and restaurant owners. These accounts, which are for the year ended March 31, 1948, are included as a fairly representative example of a set of accounts complying with the Companies Act, 1948. The following notes and comments by the author may be of interest :—

In common with practically all undertakings of any size or complexity, the company has subsidiaries, and therefore, in order to comply with the 1948 Act, publishes a " Consolidated Balance Sheet " and a " Consolidated Profit and Loss Account ". Before the 1948 Act came into force the publication of these consolidated statements would have been optional and, further, had they been published there would have been no obligation for the auditors to report on them. It may be noted that, notwithstanding the absence of compulsion, it was, prior to 1948, becoming increasingly common to publish consolidated accounts and for the auditors to take a limited responsibility for their accuracy, as attested by a suitably worded report. Note further that, under the 1929 Act, the auditors' duty was to report only on the (statutory) Balance Sheet; under the 1948 Act the report has to cover the Profit and Loss Account as well, in addition also to the Consolidated Accounts where there are any. There is not a separate report for each of these accounts, but one report covering them all. The wording of the report (assuming, of course, that the auditors have not found it necessary to " qualify " it—that is to say, mention certain matters in respect of which they are not satisfied) will be in a standardised form, the standard varying according to the circumstances applicable. The simplest form of report is in the case where there are no subsidiaries and no foreign branches. In the case we are now considering there are subsidiaries (and consequently consolidated accounts), and the form of report is varied accordingly. The actual wording of the report is in a form recommended by the Institute of Chartered Accountants after taking counsel's advice, and the student is recommended to study it carefully and consider exactly what it means. There is one observation perhaps worth noting in particular. In the first sentence of the second paragraph the auditors mention that the accounts of certain of the subsidiaries have not been audited by themselves. This being so, the auditors (of the parent company) obviously cannot accept responsibility for the accounts of those subsidiaries, and since those accounts form part of the basis on which the Consolidated Accounts are constructed, and the accuracy of the Consolidated Accounts must accordingly depend on the accuracy of the accounts of the sub-

SPIERS & POND LIMITED

BALANCE SHEET, March 31, 1948

	£	£
Capital—Authorised.		
600,000 6½% Cumulative Preference Shares of £1 each	600,000	
1,200,000 Ordinary Shares of 10*s*. each	600,000	
	£1,200,000	
Capital—Issued.		
£497,576 6½% Cumulative Preference Stock	497,576	
£415,579 Ordinary Stock in units of 10*s*. each	415,579	
944 Fractional Certificates of 5*s*. each	236	
		913,391
Revenue Reserves and Surplus—		
General Reserve	75,000	
Reserve towards future Income Tax	24,000	
Profit and Loss Account Balance	70,733	
		169,733
Net Surplus on Sale of Properties, in Suspense		188,108
Provision for Repairs and Renewals after expenditure on Deferred Repairs charged during year	31,779	
Add: Appropriation at 31st March, 1948	28,221	
	60,000	
Add: Unexpended balance of Fire Insurance Claim	17,297	
		77,297

	Valuation or Cost.	Aggregate Amortization and Depreciation.	Balance.	£
Fixed Assets—				
Freehold and Leasehold Properties: At values arrived at under Scheme of Arrangement approved by the Court in 1918, *less* subsequent sales; or at cost:				
Freehold Properties	308,458	—	308,458	
Leasehold Properties	435,628	141,142	294,486	
Printing Machinery at net book value at 31st March, 1939, plus additions at cost *less* sales	1,564	1,414	150	
Motor Vehicles, at cost.	7,871	4,607	3,264	
Furniture and Equipment at net book value at 31st March, 1948	150,686	—	150,686	
	904,207	147,163		757,044

4½% First Mortgage Debenture Stock—		
Amount outstanding at 1st April, 1947	297,699	
Less: Redeemed during year	297,699	
		—
Current Liabilities—		
Sundry Creditors	127,380	
Taxation	25,672	
Unclaimed Interest and Dividends	1,796	
Proposed Final Dividend on Ordinary Stock (Net)	13,714	
Subsidiary Companies—Current Accounts	760	
		169,322
		£1,517,851

Expenditure on Reconstruction of Properties recoverable in part under War damage Claims		30,350
Subsidiary Companies—		
Investments at cost	216,210	
Loans	90,250	
		306,460
Current Assets—		
Stocks on Hand	192,286	
Sundry Debtors (including agreed War Damage claims Part I and II)	78,072	
Subsidiary Companies—Current Accounts	25,829	
Tax Reserve Certificates	60,000	
Cash at Bank and on Hand	67,810	
		423,997
		£1,517,851

J. DOUGLAS BROAD }
WALTER VENABLES } *Directors.*

AUDITORS' REPORT TO THE MEMBERS OF SPIERS & POND LIMITED.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. In our opinion proper books of account have been kept by the Company so far as appears from our examination of those books and proper returns adequate for the purposes of our audit have been received from branches not visited by us. We have examined the above balance sheet and annexed profit and loss account which are in agreement with the books of account and returns. In our opinion and to the best of our information and according to the explanations given us the said accounts give the information required by the Companies Act, 1948, in the manner so required and the Balance Sheet gives a true and fair view of the state of the Company's affairs as at 31st March, 1948, and the Profit and Loss Account gives a true and fair view of the profit for the year ended on that date.

We have also examined the annexed consolidated balance sheet and consolidated profit and loss account of the Company and its Subsidiaries dealt with thereby with the audited accounts of those Companies, certain of which have not been audited by us. Subject to the foregoing, in our opinion such consolidated balance sheet and consolidated profit and loss account have been properly prepared in accordance with the provisions of the Companies Act, 1948, so as to give a true and fair view respectively of the state of affairs and of the profit of Spiers & Pond Limited and its Subsidiaries dealt with thereby so far as concerns the members of Spiers & Pond Limited, and so far as is practicable having regard to the fact that accounts of certain of the Subsidiaries cover a period of more or less than twelve months.

Throgmorton Street, London, E.C.2.
14th September, 1948.

Chartered Accountants.

sidiaries, mention of the fact is necessary. If, in fact, the auditors of the parent company are also the auditors of *all* the subsidiaries, the words "certain of which have not been audited by us" would be omitted from the report.

The preparation of Consolidated Accounts involves considerations too advanced for inclusion in this volume (the student who is interested is recommended to read the chapter on the subject in the author's "Higher Book-keeping and Accounts"), and accordingly no comment will here be made on the published Consolidated Profit and Loss Account and Balance Sheet: they are included merely as matter of interest.

Turning now to the "unconsolidated" Profit and Loss Account, the first point to notice is that it is in two parts. There is no statutory requirement that this should be so, but it is convenient, and almost universal in practice. In the first part is shown, on the credit side, the "Trading Profit," the interest receivable and the transfer fees. The Act compels this interest to be separately shown: the disclosure of the amount of transfer fees is voluntary.

On the left-hand side of the first part are all the items which are "charges" against profit, as opposed to "appropriations of" profit. Separate disclosure of all these items is statutory under the 1948 Act. Two remarks may be worth making: (1) Depreciation, as such, is not provided on all classes of fixed assets; provision for wastage is made, as regards furniture and equipment, by charging replacements to revenue (this appears to be a usual practice with hotels and avoids much complicated calculation). (2) "Repairs and Renewals of Buildings, Plant, Furniture and Equipment" is shown as one figure, without subdivision. No subdivision is necessary under the Act. (3) An additional "Provision for Repairs and Renewals" appears below under the heading of "Proposed Appropriations". Presumably this is treated as an appropriation rather than a charge, on the ground that it is in excess of strict requirements, otherwise there seems no reason for not merely including it in one figure with the charge considered under (2) above. It does seem a little surprising, however, that this appropriation is merely "proposed": it could hardly require the sanction of the members. (4) The auditors' remuneration *must* be disclosed unless the amount is fixed by the members at the annual general meeting: if it is so fixed it need not be disclosed in the published Accounts.

Beyond the comment under (3) above, there is little that needs saying with regard to the appropriation section. The student will note that a clear distinction is drawn between dividends *paid* and the dividend *proposed*. The latter also appears separately under the heading of "Current Liabilities" in the Balance Sheet.

Detailed consideration of the taxation figures is considered to be outside the scope of this chapter, but it is worth noting that Profits Tax is shown separately from Income Tax, and that it is clearly stated what the two items deducted from profit for Income Tax (one as a "charge" and the other as a "proposed appropriation") represent. "Future" Income Tax strictly means Income Tax that will become payable at any time after 1947–48, but since the Company's liability for Income Tax 1948–49, based on the profits of the current year, and the standard rate of tax

being 9*s*., will evidently greatly exceed the amount here reserved the reserve must be taken as being towards the tax liability for 1948–49. The same amount will be noticed in the Balance Sheet shown as a separate item under the heading " Revenue Reserves and Surplus ".

Turning now to the Balance Sheet :—

The first thing to notice is the use of headings to the different sections. The 1948 Act requires that the various types of assets and liabilities shall be suitably grouped, and prescribes some of the headings (where appropriate), but makes no attempt to lay down all the headings : this would be impossible, on account of the varying requirements of different types of business. In the present case the headings "Capital", "Current Liabilities", " Fixed Assets " and " Current Assets " need no explanation or comment. The heading "Revenue Reserves and Surplus", while popular in modern usage and self-explanatory, is arbitrary. The Act defines the term " Revenue Reserve ", and lays down that items coming within the definition must be grouped together. " Surplus ", on the other hand, is not a statutory term : it is simply a short and convenient manner of describing the credit balance remaining on the Profit and Loss Account after all appropriations have been deducted.

The next item on the left-hand side, shown by itself, is " Net Surplus on Sale of Properties, in Suspense ". It is unusual to find a Suspense Account in a Balance Sheet, and the reason for its appearance on this occasion is presumed to be that the directors have not yet decided what to do with it. The student will realise that this item is, by its nature, a capital profit, and it would be absolutely improper to treat it as a trading profit and include it (without separate disclosure) as such. On the other hand, subject to certain conditions and safeguards, it may be legitimate to credit such an item (shown separately) to revenue and distribute it as dividend; failing such treatment it would have to be treated ultimately as a Capital Reserve, and shown as such or a specific reserve, under some suitable name, shown in the Balance Sheet under the general heading of " Capital Reserves ". In the present case it is clear that a final decision on the matter has not yet been taken.

It is rather usual nowadays to lay out the Balance Sheet in such a way as to show a figure representing the total of the paid-up capital, all true reserves (whether revenue or capital) and the " surplus ". This figure represents the shareholders' " equity ", and is the amount that would be available for distribution to the shareholders if the company were wound up and all assets realised precisely their book value and all liabilities settled at their face value. In the present case it has evidently not been thought desirable, or not worth while, to do this. It could, without disturbing the existing arrangement, have been done by inserting a sub-total below the first three figures in the right-hand or " outer " column.

The remaining items on the left-hand side, and their grouping, are all sufficiently self-explanatory, with perhaps the possible exception of the item " Provision for Repairs and Renewals." This is what the student has perhaps been taught to call a "renewal fund," and the account has been raised because, as already noted, wastage of the Furniture and Equipment is not

dealt with by means of depreciation, but by charging all repairs and renewals against revenue.

The position of the Debenture Stock, appearing immediately above the Current Liabilities, is worth noting. The position is clearly correct, since debentures are nothing but a liability, although in some cases it may be a long-term one. The old practice of showing them immediately under the Capital, which was justified by regarding them as "loan capital," was clearly open to objection.

On the assets side we come first to the "Fixed Assets." There are three points to note here. The first point is the basis of the figures in the first column, headed "Valuation or Cost." The Act provides, as regards the fixed assets, that (1) the basis of valuation must be stated, and (2) unless it is impossible (for reasons stated in the Act) the basis, as regards each type, must be to state the cost or the aggregate depreciation. In the present case three different bases are shown: the expression "net book value," which appears twice, implies that the cost of the assets in question is unascertainable (without undue difficulty or delay) and that the amount in question simply represents the value at which those assets stand in the company's books at the date stated (such date cannot be later than July 1, 1948). The second point is the columnar arrangement, which, though by no means universal, is becoming increasingly popular. The third point is that the figures in the second column, which represent the "Amortization and Depreciation," are "aggregate"—in other words, "total" figures: there is nothing here (though there is in the Profit and Loss Account) to show how much of the total has been provided in the current year and how much in past years. This subdivision is not required by the Act.

The next two items are set out separately, coming under neither of the general headings of fixed or current assets. As regards "Expenditure on Reconstruction of Properties," it is clear from the wording used what this represents: as soon as the claim in respect of War Damage is settled, this item will disappear, and the amount (if any) by which the recovery under the claim falls short of the expenditure will have either to be written off against profits as repairs or capitalised.

Investments in, and loans to, subsidiary companies had to be separately disclosed under the 1929 Act, and this requirement continues under the 1948 Act. Investments in subsidiary companies are, of course, strictly fixed assets: the position regarding the loans is not so clear, and would apparently depend on the terms of the loans—*e.g.*, whether they are merely temporary or are intended as a permanent method of financing the subsidiaries in question. In the present case, since a separate item "Subsidiary Companies—Current Accounts" is shown below under the heading of Current Assets, the implication seems to be that the loans are permanent and should be regarded as fixed assets.

As regards investments generally (there are none in the present case, except the holdings in subsidiary companies), they may be either fixed or current assets, according to the purpose for which they are held. Accordingly, in a Balance Sheet they may be found under either general heading or (quite often) not included under either, but set out under their own (separate) heading.

The items listed under "Current Assets" are all fully self-explanatory.

The student will observe the notes appended to the Balance Sheet regarding contingent liabilities, etc. A set of accounts omitting such information would obviously not give a complete picture, and it has always been considered the correct course to include it. Under the 1948 Act the disclosure of information regarding contingent liabilities is compulsory. If the circumstances are such that it is considered advisable to set aside a sum to provide for the liability, this will appear in the Balance Sheet as a "provision," and, in the year in which the provision is made, it will probably appear also as a separate debit in the published Profit and Loss Account. In other cases, as here, the information is merely contained in a note.

In conclusion, there is one omission to note. This lies in the absence of publication, as regards either the Profit and Loss Account or the Balance Sheet, of comparative figures for the previous year. Such publication is compulsory under the 1948 Act, but an exception is made as regards the first accounts published after 1st July, 1948 : no doubt this is because the accounts published under the new Act will in many cases differ in some respects from previous accounts as regards arrangement or the amount of information disclosed, so that comparative figures, if given, would not correspond properly, or else would disclose details not actually appearing on the previous accounts and not, according to the law then in force, required to be disclosed. Notwithstanding, the practice of publishing comparative figures (usually in the left-hand margin opposite the corresponding current figures) was, in fact, adopted for some years before 1948 by a steadily increasing number of companies.

On pp. 598–9 will be found the published Profit and Loss Account and Balance Sheet of Gartons Limited. These accounts, which are for the year to June 30, 1948, are drawn up in compliance with the 1948 Act, and are interesting as illustrating one of the modern trends in the method of presentation.

There are no complications in the facts to be dealt with : the capital structure is simple (two classes of shares only, both fully paid), and there are no subsidiary companies, so that no Consolidated Accounts appear. The interest lies in the method of setting out the statements, especially the Balance Sheet. This last may at first sight appear to the reader quite revolutionary, and will repay study : the method is not unique, but (as yet at any rate) it has been adopted by only a small minority of companies.

The salient feature is that there is no "debit" or "credit" side, showing equal totals as is customary. Instead, the current liabilities are deducted from the current assets, giving a figure described as "Surplus of Current Assets" (which is also the figure sometimes called "working capital"). This is added to the total of the fixed assets, which are set out in detail at the top of this part of the statement, the total being described as "Total Surplus of Assets over Liabilities." The second portion of the Balance Sheet sets out, in the usual manner, the capital and reserves, suitably detailed, the total of which is, of course, equal to the total "Surplus of Assets." Although at first sight the

BALANCE SHEET as at June 30, 1948

Comparative 30th June, 1947.			Cost to 30th June, 1947.	Depreciation to 30th June, 1947.	Additions less *Sales* year to date.	Depreciation for year to date.	
		Fixed Assets—					
£	£	Leasehold Land and	£	£	£	£	£
25,690		Works, etc.. .	25,690	—	675	—	26,365
		Freehold Agricultural Land, Buildings					
13,041		and Cottages .	13,140	99	275	52	13,264
11,895		Plant and Machinery	30,171	18,276	*347 Cr.*	867	10,681
951		Motor Vehicles. .	3,899	2,949	1,111	687	1,374
		Fixtures and Fittings					
2,537		and Office Furniture	4,687	2,149	294	524	2,308
			£77,587	£23,473	£2,008	£2,130	
£54,114		TOTAL FIXED ASSETS					53,992
		Current Assets—					
28,619		Stocks on hand				37,740	
		Trade and Sundry Debtors (*less* Provisions for Discounts, Rebates and Bad Debts,					
200,682		£11,387)				199,331	
1		Trade Investment				1	
5,350		Tax Reserve Certificates				32,000	
62,264		Cash at Bankers and in hand . . .				9,446	
296,916						278,518	
		Less Current Liabilities—					
	42,996	Trade and Sundry Creditors			42,710		
	73,350	*Loans*			—		
	24,669	Accrued Taxation			24,147		
		Proposed Final Dividend and Bonus (*less*					
	4,785	Income Tax)			9,570		
145,800						76,427	
£151,116		*Surplus of Current Assets* .				£202,091	
							202,091
£205,230		*Total Surplus of Assets over Liabilities* (represented by)—					£256,083
		Share Capital—					
		Authorised.					
		700,000 Ordinary Shares of 2*s*. each .			70,000		
		50,000 7½% Cumulative Preference Shares of £1 each			50,000		
					£120,000		
		Issued.					
		580,000 Ordinary Shares of 2*s*. each,					
	50,000	fully paid				58,000	
		48,851 7½% Cumulative Preference					
	44,028	Shares of £1 each, fully paid . .				48,851	
94,028							106,851
		Capital Reserves—					
	16,382	Excess Profits Tax Post-War Refund .				16,382	
	—	Premium on Ordinary Shares . .				36,000	
16,382							52,382
		Revenue Reserves—					
	39,000	General Reserve				44,000	
	15,000	Stock Contingency Reserve				15,000	
	—	Staff Pension Fund				1,000	
		Reserve for Future Taxation, being Income Tax 1949/50 and proportion of					
	33,243	Income Tax 1948/49				32,309	
		Undistributed Balance on Profit and Loss					
	7,577	Account				4,541	
94,820							96,850
£205,230		T. R. GARTON, T. H. MILN } *Directors.*					£256,083

GARTONS LIMITED

PROFIT AND LOSS ACCOUNT for the year ended June 30, 1948.

Year to 30th June, 1947. £	£		£	£
82,632		*Trading Profit* after provision of all expenses and charges (other than stated below)		52,863
104		Interest on Tax Reserve Certificates		67
720		Profit on Sale of Vehicles		760
1		Transfer Fees		2
83,457				53,692
	6,131	*Less* Interest on Loans to date of repayment	274	
		Directors' Remuneration:		
	7,250	Management	3,750	
	200	Fees	840	
	650	Auditors' Fees	782	
	—	Registrars' Fees	250	
	1,948	Depreciation	2,130	
16,179	—			8,026
67,278		*Net Profit* subject to taxation		45,666
		Less Provision for Current Taxation:		
	15,284	*Excess Profits Tax*	—	
	4,214	Profits Tax on profits to date	12,138	
	727	Income Tax—Schedule A	745	
	20,225		12,883	
	—	*Less* Overprovision for Excess Profits Tax at 30th June, 1947	1,281	
20,225				11,602
47,053		*Net Profit* after current taxation		34,064
6,136		To which must be added the balance undistributed brought forward		7,577
53,189		*Total available for Distribution*		41,641
	17,781	The Directors have transferred to Reserve for Future Taxation (Income Tax 1949/50)	13,135	
		and have declared and paid the following dividends:		
	2,421	Preference Shares 7½% *less* Income Tax	2,015	
	9,625	Ordinary Shares 20% *less* Income Tax	6,380	
		and now propose		
	4,785	Final Dividend on Ordinary Share Capital of 25% *less* Income Tax and a Bonus of 5% *less* Income Tax	9,570	
	—	Transfer to Staff Pension Fund	1,000	
	11,000	Transfer to General Reserve	5,000	
45,612				37,100
£7,577		Balance to be carried forward		£4,541

REPORT OF THE AUDITORS TO THE MEMBERS.

We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit. In our opinion proper books of account have been kept by the Company so far as appears from our examination of those books. We have examined the above Balance Sheet and annexed Profit and Loss Account which are in agreement with the books of account. In our opinion and to the best of our information and according to the explanations given us, the said accounts give the information required by the Companies Act 1948, in the manner so required, and the Balance Sheet gives a true and fair view of the state of the Company's affairs as at 30th June, 1948, and the Profit and Loss Account gives a true and fair view of the profit for the year ended on that date.

Liverpool,
4th October, 1948.

Chartered Accountants.

CHAPTER XXV

HINTS TO EXAMINATION CANDIDATES

It has fallen to the author's lot, for many years past, to examine papers in book-keeping and accountancy subjects in greater number, perhaps, than falls within the experience of most men. It was suggested from several quarters that, for this reason, therefore, some hints to candidates arising out of the experience thus gained might prove helpful. The many expressions of appreciation which have been received from both teachers and students have amply justified the inclusion of this and the following chapters; and though the author knows that it is possible, and indeed probable, that much that is set down hereunder may prove trite and commonplace to many readers; yet, on the other hand, there are others who will glean some helpful suggestion from one or other of the hints which follow. This is the justification for the inclusion of Chaps. XXV and XXVI in the present treatise.

The subject-matter under consideration divides itself naturally into two divisions, viz.—

1. How to acquire the necessary knowledge.
2. How to use the acquired knowledge to the best advantage in the examination room.

To take the first point—

The acquisition of Knowledge, or Preparation.—Which is the best way of acquiring a good knowledge of book-keeping? The problem is not an easy one, nor is any dogmatic prescription available. The solution of the question must always depend largely upon the circumstances surrounding it, and the opportunities available to the individual student in question. There will, however, be general agreement that book-keeping is probably one of the most difficult of subjects to teach theoretically in School or Class. Practical experience is apparently more

essential for the development of a really good book-keeper than is the case with almost any other branch of knowledge. There is only one school in which practical book-keeping can be satisfactorily learned, and that school is a counting-house; actual experience must always be the best of teachers. Obviously, however, with a large proportion of students, practical work follows, and is to some extent the result of preliminary preparation. In all cases, the ideal is that theory and practice should be learned side by side.

The first advice the author would offer to the student, therefore, is to urge him not to attempt to teach himself book-keeping unless, of course, owing to circumstances, he has no choice in the matter. It is pre-eminently a subject upon which an ounce of practical teaching is worth the proverbial ton of theoretical reading.

If it is in any way possible, the student should join some school or class under a qualified teacher. There is now, fortunately, no lack of competent teaching of practical and modern methods. Indeed, the improvement in this direction, as evidenced by the worked examination papers sent in by examinees, as compared with the standard attained earlier in the century, is most marked and encouraging.

It is particularly urged that the student should make himself thoroughly acquainted with the most modern forms of Cash Books, Petty Cash Books, Sales and Purchases Journals, etc. It is upon books of this nature that the young recruit will probably be first set to work upon his entry into commercial life, and it is important that he should have as little as possible to *unlearn* in connection with the work he will have to undertake. The author's advice to the young student is :—Choose the easier task, therefore, and *learn* in the first instance the uses and methods employed in keeping books of this class in their latest and most modern forms. Examination work furnishes ample evidence that there is still, in some instances, much to be learnt in connection with the detailed working of these subsidiary books. Make sure, therefore, that the knowledge you are now gaining laboriously will not fail you when put to the actual test of the requirements of modern practical book-keeping.

It will be unnecessary to urge as another axiom that no student, however able, can hope to pass the test of modern examinations without diligent and methodical study, supplemented by the expert help and

friendly criticism of a qualified teacher. Yet lack of method in preparation is the only too evident cause of failure of a considerable percentage of students. Portions of the subject have been well mastered, whilst other equally important, and even preliminary steps to the foundation of a sound knowledge of book-keeping, have been neglected. For instance, some students can prepare a Profit and Loss Account and Balance Sheet from a given Trial Balance with accuracy yet fail entirely to submit correct work in entering up the subsidiary books from which a Trial Balance has to be prepared; but it is just upon the keeping of these subsidiary books that the young book-keeper's first essay upon practical commercial life is to begin!

Be careful, therefore, that your preparation is methodical and thorough. Do not attempt to run before you can walk; consider carefully your own weak points; seek advice upon them; and devote special time and attention to their rectification.

In this direction should be found one of the great benefits to be obtained from class attendance, as the student, to a large extent, at any rate, is kept to a methodical course of preparation.

Up to this point, therefore, the author's advice is (1) Acquire, at all costs, method in your preparation. Map out a clear and careful plan of campaign for your preparatory work, and a methodical time-table of working hours, and adhere loyally to it. (2) Read consecutively through the selected text-book, and master the fundamental principles of book-keeping before you undertake any of the kindred subjects that the examination you are preparing for may include. Candidates for the professional examinations may, however, profitably study "General Commercial Knowledge" side by side with book-keeping.

Having selected your text-book, the next question to decide is which is the best method to adopt in endeavouring to master its contents. The consideration of this point raises the much-vexed question of note-taking. It would probably be hard to find a subject upon which students differ more radically than in their methods and manner of note-taking. Upon a matter, into the solution of which the idiosyncrasies of the individual student must so largely enter, dogmatism is, of course, out of place. The author is, however, of opinion that a careful synopsis

of each chapter read will prove of value to the student; not only for future reference, but as a means of compelling him to think out and analyse carefully the contents of the chapter, and to impress upon him the points it is essential for him to commit to memory. The mere fact that information exists in a student's note-book does not, of course, ensure its being in his head also—the two things are not necessarily synonymous; care must however be taken to make them so. A note-book prepared with care and discrimination and repeatedly gone over is, without doubt, a valuable aid to the great majority of students.

In the author's opinion, a portion of the student's preparation which is almost as important as the acquisition of the necessary knowledge is often omitted by many students, and that is, ample practice in putting down in *writing*, in clear and concise form, answers to examination questions and exercises which have been previously set.

The practice with many students is to run hastily through sets of old examination questions on the often unwarranted assumption that they have already mastered the problems raised by the questions, or at most with a brief and perfunctory reference to the textbook where the questions raise difficulty or doubt. Now it is easy to assume that one knows how to answer a question, but it is quite another thing to put down *in writing* a clear and concise answer that will carry good marks upon examination. The student may think that the importance of this point is unduly emphasized or exaggerated. This is not the opinion of the author. The one thing that stands out pre-eminent in the experience of examiners on book-keeping subjects, is the small percentage of students who appear to be able properly to complete the work set within the limit of the time allowed. There is, of course, an ancient, and probably irremovable, conviction amongst candidates, that every examination paper is, as a matter of course, unfairly long. In the great majority of cases the conviction is not supported by fact; but it remains true that a large number of candidates fail to do themselves justice in the examination room owing to their inability, through lack of practice, to convert knowledge possessed clearly and concisely *into words on paper* within a reasonable time.

The author's advice, therefore, upon this point is

to answer in writing, *just as you would in an examination room*, as many exercises and past examination questions as you can. Indeed, the student may wisely devote at least one-fourth of the whole of the time set apart for preparation work to the answering of questions in this way.

It will be helpful discipline, too, for the student to time himself when answering complete papers; in this way he will obtain a useful gauge of his progress.

This takes us to the second part of our subject: **How to use acquired knowledge to the best advantage in the examination room.**

There is probably no prospective candidate who reads these words who could not explain his views as to examination questions in general with eloquence, and adversely to examiners. The author does not propose to enter into controversy. The trouble, it is feared, is not epidemic, but chronic, and the symptoms are apparently common to the genus candidate all the world over. The author has frequently noticed, however, that, as a rule, those gentlemen who have the least to say to the questions inside the examination room have the most to say about them outside that room.

Another firmly-rooted conviction still surviving amongst some examinees appears to be that the majority of examination papers contain some deep and dangerous "trap" or pitfall for the unwary candidate. Under this conviction some candidates waste much precious time hunting for the bogey.

If the author's assurance is accepted upon this point, the student may dismiss all such unworthy suspicions from his mind. "Traps" are not set in examinations of repute. It is of the first importance that the examinee should enter the examination room with the comfortable conviction that, whether he passes or fails, he will be justly and even generously dealt with. He will do far better work under this conviction, and this is a feeling which he may confidently entertain with reference to the examinations of all bodies of recognized standing.

Having entered the examination room, therefore, in a proper frame of mind, the author would advise the candidate to read through the *whole paper* carefully.

Some candidates answer the questions in the order in which they are set without reading through the paper as a whole, or making any attempt roughly to apportion

the time allowance amongst the questions set. It is far wiser for the candidate to read the whole paper through intelligently, selecting the one or two questions about which he feels most confident and answering them as a commencement of his task. When the candidate has dealt with a few questions the answers to which he knows are more or less correct, he will feel much more confident, and will then be able to tackle the longer and more difficult questions with a far greater likelihood of success. It is particularly important that candidates of nervous temperament should ensure the measure of equanimity which is gained by the feeling that, at any rate, a few well-answered questions stand to their credit before they embark upon the longer problems.

In the case of those questions where certain closing adjustments, outside the Trial Balance, are necessary before completing the preparation of the Profit and Loss Account and Balance Sheet, it is, in the author's opinion, a wise plan to draft the closing adjustments *in the form of Journal entries*, ticking them off one by one as they are passed into the accounts. In a large percentage of cases where the examination candidate fails to " balance " his accounts the error arises through some careless slip or omission in dealing with one aspect only of some adjustment he is asked to make. Disconcerting mistakes of this kind should become impossible if the course suggested above is carefully carried out.

In examination Exercise II on pp. 637–8, for example, the necessary adjustments would be journalized as shown on the following page.

These Journal entries have been set out above just as they would appear in the company's books, but they may be curtailed by the candidate, for examination purposes, to such entries as will ensure the safe arrival of each item at its correct destination in the accounts he is preparing. Each item should be carefully marked off when dealt with. If these precautions are followed, errors in the final "balance," from this source, are thus greatly minimized.

If the candidate has no certain knowledge of any question set he will be well advised to leave it alone altogether. The practice of "having a shot" at questions, although popular amongst some candidates, is fraught with great danger, and is not unlikely to prejudice the remainder of the paper.

JOURNAL

	£	s.	d.	£	s.	d.
Depreciation Account ....Dr.	2,803	10	0			
To Machinery and Plant Account				2,136	0	0
,, Building Account				667	10	0
For Depreciation for the year ended Dec. 31, 19—, at 6 per cent. and 3 per cent. respectively.						
Profit and Loss Account ....Dr.	2,803	10	0			
To Depreciation Account				2,803	10	0
For Transfer of the Balance of this account.						
Stock Account ....Dr.	23,700	0	0			
To Trading Account				23,700	0	0
For the Stock on hand as on Dec. 31, 19—, as per valuation.						
Profit and Loss Account ....Dr.	25	0	0			
To Reserve for Bad and Doubtful Debts				25	0	0
Being the additional amount required in order to carry forward a Reserve of 5 per cent. upon the outstanding Sundry Debtor Balances as on Dec. 31, 19— (£52,500).						
Profit and Loss Account ....Dr.	500	0	0			
To Patents Account				500	0	0
For amount written off this account during the year.						
Profit and Loss Account ....Dr.	500	0	0			
To Sundry Creditors (Directors' Fees)...				500	0	0
For fees due to the Directors for the year ended Dec. 31, 19—, as per Articles of Association.						
Insurance Paid in Advance ....Dr.	90	0	0			
To Insurance Account				90	0	0
For the value of Unexpired Insurance Premiums carried forward to next year.						
Profit and Loss Account ....Dr.	1,826	3	0			
To Managing Director				1,826	3	0
For 10 per cent. commission upon the Net Profits for the year ended Dec. 31, 19—, as per Agreement.						
Profit and Loss Account ....Dr.	2,500	0	0			
To Reserve Account				2,500	0	0
Being the amount added to the fund during the year ended Dec. 31, 19—.						

Candidates should endeavour to arrange their answers methodically. Let the data with which they supply the examiner be set out as far as possible with suitable underlined headings; especially is method of this description desirable when answering questions which contain one or more points. To take a simple example—

Question.—What is your opinion with reference to the employment of "Loose Leaf Ledgers"?

Answer.—ADVANTAGES may be claimed for "Loose Leaf Ledgers" under several headings—

1. Accounts that are "dead" may be eliminated from the Ledger.
2. The pages of an account that has been "settled" may be removed and filed elsewhere so that the bulk of the Ledger may be kept within reasonable limits.

Etc., etc.

DISADVANTAGES also exist in connection with this system in that—

1. Pages of an account when once removed may be lost.
2. Unless care is exercised in the issue of fresh pages fraud may be covered by the substitution of pages containing altered figures.

Etc., etc.

Method of this description is more likely to cover all the points raised by the questions set than the methodless and disconnected answers so often sent in by examinees.

When answering questions, candidates should endeavour to strike the happy medium between verbiage and the opposite extreme of cryptic brevity affected by some students. Answers should be full, in the sense that they should deal efficiently, but concisely, with all the points covered by the question. The verbose candidate goes much further than this. He is apparently of opinion that however little the examiner wants, "he wants that little long." Accordingly, he proceeds to drag in all manner of irrelevant matter, thereby wasting his own time and that of the examiner.

On the other hand, all candidates are aware, of course, that a mere "yes" or "no" carries no marks upon examination. The candidate must furnish some reasonable evidence to the examiner that his answer is based upon real knowledge, and is not merely the result of a fortunate guess.

In book-keeping, as in almost every other subject, there are points of treatment in which experts differ. In answering questions of this type the candidate should avoid dogmatism. In dealing with questions upon which strongly opposed views are held, it is wiser to state briefly the contentions of the differing schools of opinion, stating plainly your own personal views, and giving reasons with-

out violence, for the faith that is in you. Whatever the particular views held by the examiner may be, if you justify your answer with moderate and sensible argument, your claim to a fair share of the marks carried by the question will be recognized.

Many questions contain two or more points of equal importance with which the candidate is asked to deal. It is a matter of experience, however, that, in the case of questions of this type, there are always a number of examinees who lose marks by neglecting to deal with *both* or *all* the points raised by the question before them. This failing is often due to carelessness and lack of method. A second reading of the question before the candidate passes on to his next answer should discover the omission, and, occupying but little time, would frequently save many marks which would otherwise be lost. Obviously the examiner cannot give marks for work which is not sent in, however certain he may feel that the omission is due to mere carelessness.

Another point to which it may be thought there is no necessity to refer, is the fact that some examinees place too literal an interpretation upon some phrase or word employed by the examiner, without pausing to consider its context in the question. This again, doubtless, is often a phase of carelessness, for the false issues raised are frequently so ridiculous that a very brief reconsideration of the question should have avoided the loss of time and marks entailed. Any one with experience of examination work will freely admit that it is a most difficult task to frame an examination question so that the desired meaning shall be clear to all. If some other interpretation be conceivable by any stretch of imagination, however daring, some candidate is sure to be present who is equal to the task.

For example, the author once asked in a book-keeping examination, for a definition of the term "Royalty." One candidate replied that "Royalty was anything appertaining to the Royal Family"! The dictionary would probably support this view. But one would hardly have thought that a candidate in a book-keeping examination of some difficulty would place such an interpretation upon the term.

The illustration is, of course, an extreme one; but it suffices to emphasize the warning that, in many cases, marks are lost owing to the too literal interpretation of

some word, or phrase, without due regard to its contextual position or to the examiner's probable meaning.

If the candidate finds that he can place two different and reasonable interpretations upon any item in a question set, he will be wise to use the item in the sense of the most probable of its interpretations, and to append a clear and concise note to his accounts stating that there is also the other possible interpretation which, if adopted, would have been dealt with in such and such a manner, briefly showing how the accounts would have been affected.

There are other candidates, unfortunately far too numerous, who although evidently possessing a good knowledge of book-keeping, spoil their chances of distinction by making stupid arithmetical errors, often in the simplest of calculations. Such errors may not fail a candidate who showed otherwise a good knowledge of the subject, but they must obviously handicap him in obtaining class distinction. It is well worth the short time occupied in making sure that the arithmetical calculations necessary in working out questions have been correctly made before passing them into the accounts you are asked to prepare.

When the candidate has answered all the questions he can, he will be well advised not to hand in his paper at once, and hurry out of the examination room, as so many candidates do. However good the paper may be, there is sure to be some weakness which can be remedied upon a careful revision. Neatly rule up and bring down the balances of the Ledger accounts. Red-ink the Profit and Loss Account and Balance Sheet, and re-write any answers or parts of answers the wording of which can be made clearer or more concise.

The last few minutes of an examination spent in careful revision, in this way, may make all the difference to the place which the examinee may ultimately secure upon the pass lists. Experience shows, especially in a large examination, that the leading candidates are remarkably near to each other, as often as not a mark or two only separating them. The final revision of the paper, therefore, may prove of vast importance to the candidate's success.

To sum up briefly these few suggestions, the author would again emphasise the fact that, in his opinion, many of the detrimental weaknesses by which examina-

tion candidates are handicapped may be largely overcome if they will train themselves—

First, to acquire method in preparation, or, in other words, a methodical "habit of study."

Secondly, to acquire method in marshalling and expressing knowledge possessed when dealing with actual examination questions.

If the student will work honestly upon these lines for a period suitable to his individual requirements, examinations need have no terrors for him. He may rest assured that he will be justly and fairly dealt with by his examiners, if he has dealt justly and fairly with himself. Let him also remember always that, to be successful, the accountant and book-keeper must continually remain earnest students. Even the youngest amongst us is on the road to success when he fully realises how little he knows.

CHAPTER XXVI

HOW TO ANSWER EXAMINATION PAPERS

Examination Exercise I

The following exercise was set at a well-known examination—

John Druce, a cycle dealer, had, on December 31, 19—, the following Assets—

	£	s.	d.
Cash at Bank	300	0	0
„ in hand	25	0	0
Stock	650	0	0
Furniture and fittings	120	0	0
Bills Receivable :			
A. Graves, due Jan. 9	75	0	0
B. Walters, due Jan. 10	125	0	0
Owing by :			
A. Brown	25	0	0
J. Smith	45	0	0
A. Graves	20	0	0
B. Walters	10	0	0
M. Robinson	105	0	0
	£1,500	0	0

His liabilities on the same date were—

	£	s.	d.
Due to H. Sweeting	150	0	0
„ „ A. Fisher	75	0	0
Bills Payable :			
S. Unwin, due Jan. 6	90	0	0
F. Lord, due Jan. 8	85	0	0
	£400	0	0

John Druce agreed to take M. Robinson into partnership conditionally upon the amount owing by him to John Druce on December 31, 19—, being paid at once; and upon his bringing into the business, in cash, the same amount of capital as was standing to the credit of John Druce's Capital Account at this date; one-half of this latter amount was to be paid out in cash, by way of premium, to John Druce and was to appear in the books of the partnership as Goodwill. These conditions were duly carried out as on January 1, 19—.

You are required to make the necessary entries recording the above, and to pass through the proper books the following transactions—

19—		
Jan.	1.	Bought of H. Sweeting 1 dozen bicycle frames at 15*s*. each.
„	1.	Ditto, for cash, 4 dozen wooden crates at 3*s*. each.
„	2.	Sold A. Brown 3 bicycles at £7 10*s*. each, one of which was returned on January 3.
„	3.	J. Smith paid his account, deducting £2 for bicycle damaged in transit.
„	3.	Sold B. Walters 2 bicycles at £8 8*s*. each, charging him with 2 crates at 3*s*. 6*d*. each.
„	3.	Bought of A. Fisher 6 pairs of wheels at 30*s*. a pair and a job lot of accessories for £5.
„	4.	Paid office salaries and wages, drawing and cashing a Cheque for same, £6 10*s*.
„	4.	Each partner drew out in cash £3 on private account.
„	6.	Paid A. Fisher by Cheque £25 on account.
„	6.	Bill payable (S. Unwin), due this day, paid by Bank.
„	6.	Sold J. Smith one bicycle for £7 10*s*. upon which he paid £2 on account.
„	7.	Bought for cash two second-hand bicycles at 15*s*. each, one of which was sold for cash the same day for 25*s*., which 25*s*. was paid direct into the Bank.
„	7.	Cashed Cheque for £10 for petty cash purposes.
„	8.	Bill payable (F. Lord), due this day, paid by Bank.
„	8.	B. Walters paid the balance of his account as on this day, deducting 5 per cent. discount, which was disallowed.
„	9.	Bill receivable given by A. Graves returned dishonoured: a new bill at one month being given for the whole of his account.
„	9.	Sold to B. Walters 20 brakes at 2*s*. each and 6 lamps at 5*s*. each.
„	9.	Bought of F. Lord 6 dozen lamps at 3*s*. each.
„	10.	Bill Receivable (B. Walters) duly met.
„	10.	Sold A. Graves a second-hand bicycle for 30*s*.
„	11.	Paid office salaries and wages, drawing and cashing Cheque for £6.
„	11.	Each partner drew in cash £3 for private purposes.
„	11.	A. Brown accepted a bill at 3 months drawn upon him for the balance owing by him at this date.

All moneys received were paid at once into the Bank. Balance the Ledger accounts as on January 11, bring down the balances and extract a Trial Balance.

N.B.—*No* Profit and Loss Account or Balance Sheet is to be prepared.

In order to open John Druce's books, and before considering how M. Robinson's admission as a partner may affect the position, it is necessary to incorporate in the books (which after Robinson's admission will become

the books of the firm) the financial position of John Druce as on December 31, 19—.

Upon reviewing the question before us, it will be seen that John Druce's Assets total up to £1,500, and that his liabilities amount to £400; his "capital," as at December 31, 19—, is consequently £1,100.

A Journal entry to record these facts is accordingly first put through the books, debiting to their respective Ledger accounts all the Assets held, and crediting to their respective accounts all the Liabilities outstanding. The Journal entry, as will be noted, is made to agree by the inclusion of John Druce's Capital, £1,100, this being the sum which represents the difference between his Assets and Liabilities as on December 31, 19—.

The books having been opened by means of these entries, it becomes possible to deal with the arrangement arrived at between John Druce (the previous owner of the business) and M. Robinson (the incoming partner).

The proposal is as follows—

(1) That M. Robinson shall at once pay the £105 due from him.

(2) That he shall bring into the business, in cash, as his capital, a sum equal in amount to the capital standing to the credit of John Druce as on December 31, 19—, viz. £1,100.

(3) That of this £1,100 one-half (£550) shall be permitted to be withdrawn by John Druce as a payment to him by the new firm by way of "premium" (*i. e.* as the purchase price) for the Goodwill of the business. On admitting a new partner upon equal terms with himself, John Druce becomes the owner of only one-half of the Goodwill of the business and half the profits, instead of, as heretofore, possessing both business and profits entirely, it is thus only just and fair that he should demand from the new firm and the incoming partner something by way of compensation for this concession on his part.

It is stated in the question, that this arrangement was duly carried out, and, as a necessary consequence, the following transactions must be recorded—

(1) *M. Robinson paid into the Bank of the new firm the* £105 *due from him.*

(2) *M. Robinson paid into the Bank* £1,100 *as his capital.*

(3) *J. Druce withdrew from the Bank* £550 *as the agreed purchase price to the new firm (consisting of himself and M. Robinson) of the Goodwill.*

For transaction No. (1) *the necessary entry is—*

Debit the Bank Account with £105, because the Bank has received the money, and *credit* M. Robinson because he has paid that amount. It is, of course, M. Robinson's old current account as an ordinary *debtor* in the Ledger which must be credited in this instance, and not the Capital Account to be subsequently opened in his name, which will be referred to hereafter.

For transaction No. (2) *the entry is—*

Debit the Bank Account with £1,100 because it has received the money, and *Credit* M. Robinson (Capital) Account because it is "M. Robinson" who has paid the money, and because it is in order to furnish his "Capital" in the new business that he has paid in the £1,100.

For transaction No. (3) *the entry is—*

Credit the Bank Account with £550 because £550 has been withdrawn from this account, and *Debit* the "Goodwill" Account with £550 because in exchange for this sum an asset, viz. the Goodwill, valued at £550, has been acquired by the new firm.

The remaining transactions set out in the question, and the manner of their treatment in the books, are set out hereunder—

Jan. 1. *Bought of H. Sweeting* 1 *doz. bicycle frames at* 15*s. each* (£9).

Debit "Purchases" (in the Purchases Book for subsequent entry to the debit of the Purchases Account in the Ledger) because goods to the value of £9 have been acquired, and *Credit* H. Sweeting because he has parted with goods to that amount.

Jan. 1. *Bought for cash* 4 *doz. wooden crates at* 3*s. each* (£7 4*s.*).

Credit "Cash" with £7 4*s.* because that amount of cash has gone out of the business, and *Debit* the "Purchases"

Account, because goods of that value have come into the business.

Jan. 2. *Sold A. Brown* 3 *bicycles at* £7 10*s. each, one of which was returned on January* 3.

Debit A. Brown with the cost of 3 bicycles at £7 10*s.* each (£22 10*s.*) because he has received them from the business, and *Credit* the " Sales " Account (*via* the Sales Book) because bicycles of that value have been parted with by the business. For the bicycle which was returned on January 3 an entry for £7 10*s.* must be passed through the books as though the returned bicycle represented a repurchase from A. Brown.

The second entry consequently is—

Debit " Returns Inwards " (in the " Returns Inwards Book " for subsequent posting to the debit of the " Returns Inwards Account " in the Ledger) for the goods returned because they have come back into the business and have been put into stock again, and *Credit* A. Brown with £7 10*s.*, representing the value of the bicycle returned by him.

Jan. 3. *J. Smith paid his account* (£45), *deducting* £2 *for bicycle damaged in transit.*

For the £43 thus paid by J. Smith—

Debit the Cash Book with £43, since the money has been received, and *Credit* J. Smith with £43 because he has paid that sum.

To record the £2 allowance made to J. Smith—

Debit " Allowances " Account with £2 because money has been " lost " in this direction, and *Credit* J. Smith with £2 because the allowance to him is the equivalent of a cash payment received from him, which would, of course, have been placed to his credit. This latter entry passes through the Journal proper, there being no other book of original entry in which it can be appropriately recorded.

Jan. 3. *Sold B. Walters* 2 *bicycles at* £8 8*s. each, charging him with* 2 *crates at* 3*s.* 6*d. each.*

This transaction must be treated as a sale to B. Walters of bicycles and crates, no difference in treatment being made between the bicycles and the crates which contained them.

The necessary entry is therefore—

Credit " Sales " (through the Sales Book) with £16 16*s*

for the bicycles sold and with 7*s*. for the accompanying crates, all these articles having been parted with, and *Debit* B. Walters with their value because he has received them.

Jan. 3. *Bought of A. Fisher* 6 *pairs of wheels at* 30*s. per pair, and a job lot of accessories for* £5.

Debit " Purchases " Account (*via* the Purchases Book) with the cost of the wheels (£9) and of the accessories (£5), because these goods have come into the business, and *Credit* A. Fisher because he has supplied the firm with them.

Jan. 4. *Paid office salaries and wages, drawing and cashing a Cheque for same* (£6 10*s*.).

This transaction is in fact twofold, as follows—

(1) £6 10*s*. has been withdrawn from the Bank for Office cash purposes.

(2) Out of the Office cash £6 10*s*. has been paid away in salaries and wages.

For transaction No. (1) the following entry is necessary—

Credit the " Bank " column in the Cash Book, representing the withdrawal of the £6 10*s*. from the Bank, and *Debit* the " Cash " column in the Cash Book, in order to record the receipt of the money by the Cashier.

For transaction No. (2)—

Credit the " Cash " column in the Cash Book, representing the fact that £6 10*s*. has gone out of the Cashier's hands, and *Debit* " Office Salaries " and " Wages " Accounts in order to record the fact that the money has been used in these directions.

Jan. 4. *Each partner drew out in cash* £3 *on private account.*

It has already been explained (Partnership, Chapter XV) that the modern practice is to open a " Drawings Account " for each partner to which all cash withdrawn is debited. The former, and now obsolete, practice was to debit drawings to the Capital Accounts of the partners.

It is moreover a wise precaution for the entry of withdrawals for private purposes to bear the initials of the partner concerned against the item as and where it appears in the Cash Book.

The necessary entries therefore are—

Credit the " Cash " column in the Cash Book with two

sums of £3, representing the fact that £6 in money has been paid out, and *Debit* "J. Druce, Drawing Account" and "M. Robinson, Drawing Account" with £3 in each case because it is to the partners that the money in question has been paid.

Jan. 6. *Paid A. Fisher* £25 *by Cheque on account.*

Credit the "Bank" column in the Cash Book with £25 because that sum has been withdrawn from the Bank, and *Debit* A. Fisher with £25 because he has received the money.

Jan. 6. *Bill Payable* (*S. Unwin*) *due this day paid by Bank* (£90).

Credit the "Bank" column in the Cash Book with £90 because this sum has been parted with, and post the item to the *Debit* of the "Bills Payable" Account in the Ledger because the holder, for the time being, of this Bill Payable has received the money.

Jan. 6. *Sold J. Smith* 1 *bicycle for* £7 10*s.*, *upon which he paid* £2 *on account.*

This, again, is not a single transaction for book-keeping purposes, but two, viz. (*a*) the sale of a bicycle for £7 10*s.* to J. Smith, and (*b*) the receipt of £2 in cash from J. Smith.

To record the sale to J. Smith an entry is made in the Sales Book, *crediting* "Sales" with £7 10*s.* because goods to that value have been parted with, J. Smith being at the same time *debited* in his Ledger account with £7 10*s.* because he has received the bicycle.

In order to record the receipt of the £2 on account the "Bank" column in the Cash Book is *debited,* because the money has been received and paid to bank, and, to complete the entry, J. Smith's Ledger Account is *credited* with the like amount because it is John Smith who has paid the money into the business.

Jan. 7. *Bought for cash* 2 *second-hand bicycles at* 15*s. each, one of which was sold for cash on the same day for* 25*s.*

This is an example of a "Cash" purchase (2 bicycles at 15*s.* each) followed by a "Cash" sale (1 bicycle at 25*s.*), the two transactions being separate and distinct.

In order to record the purchase for cash of 2 bicycles for 30*s.*—

Credit the "Cash" column in the Cash Book because

30*s*. in cash has been parted with, and *Debit* the "Purchases" Account in the Ledger because goods to that value have been received.

It will be remembered that, in actual practice, "Cash sales" and "Cash purchases" do not pass through the "Sales" or "Purchases" Journals, these books being reserved for transactions *upon credit*. If numerous, Cash sales and purchases are recorded in special books kept for that purpose, the totals of which are periodically carried into the Cash Book, or, if few in number, they are accommodated in columns specially provided for them in the Cash Book itself, the totals of which are posted monthly to the Ledger.

In order to record the sale for cash of one bicycle for 25*s*. the entry is—

Debit the "Bank" column in the Cash Book with 25*s*. because that sum in cash has been received, and *Credit* the "Sales" Account in the Ledger because goods have been parted with to that amount.

Jan. 7. *Cashed cheque for* £10 *for Petty Cash purposes.*

This transaction consists of the withdrawal of £10 from the Bank and the placing of it in the Office Cash to be used for Petty Cash disbursements.

The necessary entry is consequently—

Credit the "Bank" column in the Cash Book with £10, representing the withdrawal of the money from the Bank, and *Debit* the "Cash" column in the Cash Book with the same sum, because the Cashier has received the money.

Jan. 8. *Bill Payable* (*F. Lord*) *due this day paid by Bank* (£85).

Credit the "Bank" column in the Cash Book because the Bank has parted with £85, and *Debit* the "Bills Payable" Account in the Ledger because the holder of the Bill Payable, whoever he may be, has received the money.

Jan. 8. *B. Walters paid the balance of his account as at this day, deducting* 5 *per cent. discount, which was disallowed.*

B. Walters owes the firm, as shown by his Ledger account, £27 3*s*., and, doubtless thinking that Messrs. Druce & Robinson would allow it, he has deducted 5 per cent. from this sum (£1 7*s*. 2*d*.), and has remitted

a Cheque for the balance, viz. £25 15*s*. 10*d*. Messrs. Druce & Robinson, however, are not disposed to allow this deduction, and the attempt on the part of B. Walters to obtain an unfair discount consequently falls to the ground. All that Messrs. Druce & Robinson do under these circumstances is to record the receipt of B. Walters's Cheque for £25 15*s*. 10*d*. as a "payment on account," leaving the balance still owing standing to B. Walters's debit, doubtless at the same time informing him of this fact.

The entry consequently is—

Debit the "Bank" column in the Cash Book with £25 15*s*. 10*d*. because the Bank has received the money, and *Credit* B. Walters's Ledger Account with a like amount because he has paid the money to Messrs. Druce & Robinson.

Jan. 9. *Bill Receivable given by A. Graves returned dishonoured, a new bill at one month being given for the whole of his account.*

The bill first referred to above is for £75, and in addition to this A. Graves owes a further £20, being the balance due from him on his Ledger Account.

The above transaction is, as regards its book-keeping record, a triple one, and consists of the following separate transactions—

(*a*) The Bill Receivable for £75 held by Druce & Robinson is assumed to have been handed by them in the ordinary course to their Bankers for collection, and for eventual credit to their account.

(*b*) Upon presentation of the bill by the Bank to A. Graves (or his Banker), payment is refused.

(*c*) Messrs. Druce & Robinson presumably at once refer to Mr. Graves, who offers them a fresh bill for the whole amount due from him, *i. e.* (*a*) to cover the dishonoured bill (£75) and (*b*) the balance of his current account (£20), or £95 in all.

These transactions are recorded as under—

(*a*) Upon the bill for £75 being paid into the Bank for collection an entry is passed through debiting the bill to the Bank, in anticipation of its being duly collected.

The entry is therefore—

Debit the "Bank" column in the Cash Book with £75 because the Bank is assumed to have received the money (although the assumption may subsequently prove to be incorrect), and *Credit* the "Bills Receivable" Account with a like amount because a Bill Receivable of this value has been parted with for collection.

(*b*) Upon the bill for £75 being returned dishonoured Messrs. Druce & Robinson have immediate recourse for the amount against the acceptor, A. Graves, who becomes their debtor for the cash which should have been paid upon presentation of the bill.

It is consequently necessary to place the £75 to the debit of A. Graves's Ledger Account, at the same time the previous debit to the Bank must be reversed, *i.e.* an adjusting entry must be made in the "Bank" column in the Cash Book upon the opposite side to that upon which the previous entry of £75 was recorded, viz. upon the credit side.

The necessary entry is consequently—

Debit A. Graves with £75 because he has become the firm's debtor for the amount of his dishonoured acceptance, and *Credit* the "Bank" column in the Cash Book with £75 in order to reverse the previous debit entry in the Bank Account.

(*c*) A fresh acceptance for £95 is received from A. Graves, due a month after the dishonour of the previous bill.

The entry for this acceptance follows the ordinary lines applicable in the case of a Bill Receivable being given to the firm. The "Bills Receivable" Account is *debited* and the person (A. Graves) from whom the Bill has been received is *credited* with its value just as though he had paid the sum in cash.

The "Bills Receivable" Account is consequently *debited* (in this case through the Journal) with £95 because a Bill Receivable for this amount has been acquired, and A. Graves is *credited* with the like sum because he has given the bill in discharge of his indebtedness.

Jan. 9. *Sold to B. Walters* 20 *brakes at* 2*s. each and* 6 *lamps at* 5*s. each* (£3 10*s. in all*).

Credit " Sales " (in the Sales Book for subsequent posting to the credit of the Sales Account) with £3 10*s*., being the value of the goods parted with by the firm, and *Debit* B. Walters with the same sum because he has received the goods.

Jan. 9. *Bought of F. Lord* 6 *dozen lamps at* 3*s. each* (£10 16*s*.).

Debit " Purchases " (in the Purchases Book for subsequent posting to the debit of the Purchases Account) with £10 16*s*. because goods to this amount have come into the business, and *Credit* F. Lord with the same sum because he has parted with the goods.

Jan. 10. *Bill Receivable* (*B. Walters*) *duly met* (£125).

This bill will have been paid into the Bank in due course for collection upon Messrs. Druce & Robinson's behalf, and for the credit of their current account, and is duly paid upon presentation.

The necessary entry consequently is—

Debit the " Bank " column in the Cash Book with £125 because the Bank has received, first the bill, and subsequently the money for it, and *Credit* the " Bills Receivable " Account with the same sum because, first, a Bill Receivable held has been parted with for collection, and, secondly, because £125 has been paid by the acceptor of the bill.

Jan. 10. *Sold A. Graves a second-hand bicycle for* 30*s*.

Credit " Sales " (through the Sales Book for subsequent posting to Credit of the Sales Account) with 30*s*., because goods to this value have been parted with, and *Debit* A. Graves with the like sum because he has received the bicycle.

Jan. 11. *Paid Office salaries and wages, drawing and cashing cheque for* £6.

This transaction, for book-keeping purposes, must be regarded as twofold, and as comprising the following separate transactions, viz.—

(1) The withdrawal of £6 from the Bank and the deposit in the Office Cash of the money obtained by cashing the Cheque so drawn.

(2) The payment of £6 for salaries and wages by the Cashier.

Entry No. 1 is recorded as under—

Credit the " Bank " column in the Cash Book with £6 because the Bank has parted with the money, and *Debit* the " Cash " column in the Cash Book with the like sum because the Cashier has received the money.

Entry No. 2 is recorded as under—

Credit the " Cash " column in the Cash Book with £6 because the Cashier has disbursed the money, and *Debit* the " Salaries and Wages " Account with £6 because this amount has been paid in salaries and wages.

Jan. 11. *Each partner drew in cash* £3 *for private purposes.*

This entry is the exact counterpart of that passed through the books on January 4.

The entry therefore is—

Credit the " Cash " column in the Cash Book with two sums of £3, representing the fact that £6 in money has been disbursed by the Cashier, and *Debit* " J. Druce, Drawing Account " and " M. Robinson, Drawing Account " respectively with £3 because this sum has been paid to each partner.

Jan. 11. *A. Brown accepted a bill at* 3 *months drawn upon him for the balance owing by him at this date.*

The balance owing by A. Brown at this date amounts to £40, and for this sum a bill is drawn upon him by Messrs. Druce & Robinson. A. Brown signifies his promise to pay this bill at its due date by writing his name across it, *i. e.* by " accepting it." The bill thus " accepted " is returned by A. Brown to Messrs. Druce & Robinson and consequently becomes one of their " Bills Receivable."

The necessary entry therefore is—

Debit the " Bills Receivable " Account (by means of a Journal entry) with £40 because a bill for this amount has been acquired by Messrs. Druce & Robinson, and *Credit* A. Brown with £40 because he has parted with a bill for this sum.

All the detailed transactions set out in the question having thus been passed through the books it remains to complete the requisite Double Entry in the case of the " Sales," " Purchases," and " Returns Inwards " by adding up the totals of these respective Journals or Day Books, and by posting them to their appropriate Ledger

Accounts. Following upon this procedure the balances can be brought down upon all the open accounts in the Ledger, and upon the Cash Book, and a " Trial Balance " (*i. e.* a list of all the balances appearing in the Ledger and the Cash Book) can then be prepared. The total of the " Debit " balances shown in the Trial Balance should, if the work has been correctly done, agree with the total of the " Credit " balances appearing in the same statement.

The first step towards the completion of the books is the addition of the " Sales," "Purchases" and "Returns" Books and the posting of their respective totals in their appropriate Ledger Accounts.

It will be seen that the " Purchases " Book adds up to £33 16*s*., the " Sales " Book to £52 3*s*., and that the " Returns Inwards " Book contains but a single item, viz. £7 10*s*.

These additions having been duly effected, the following postings are then made in the Ledger, viz—

(1) The total of the " Purchases " (£33 16*s*.) for the period is posted to the *Debit* of the " Purchases " Account. It will be remembered that all the purchases made on credit and recorded in this book have already been posted in detail to the *Credit* of the various persons from whom the goods were bought (*e. g.* the 1 doz. frames bought on January 1 from H. Sweeting, £9, were posted to the *Credit* of H. Sweeting's account because he had disposed of the goods), and the *Debit* posting, to complete the double entry, is now effected *in total* in the " Purchases " Account, because goods to this total value have been acquired during the period.

(2) In similar manner the total of the " Sales " (£52 3*s*.) for the period is posted to the *Credit* of the " Sales " Account. This single " total " posting represents the fact that goods to the amount stated have " gone out " of the business, *i. e.* have been disposed of, and completes the double entry for all the sales upon credit previously posted in detail to the *Debit* of the various persons to whom they have been dispatched.

(3) The £7 10*s*. appearing in the " Returns Inwards " Book is posted to the *Debit* of the " Returns Inwards Account " in the Ledger; this entry is necessary because the goods in question previously formed part of a sale (to A. Brown) but have now come back (as a "return") into the business, and have been added again to the general stock of the business; the corresponding

Credit posting in A. Brown's account was effected on January 2, and recorded the fact that the goods had been received from him. As the student is aware, the total "Returns Inwards" for the trading period will be deducted from the total Sales in the Trading Account, thus arriving at the *true net amount* of the sales for the period.

The next process to be effected is the ruling off and "balancing" of the Cash Book and of all the Ledger Accounts. It will be sufficient, for present purposes, to explain the method by which the Cash Book is "balanced," and to indicate thereafter that the same process is applied to all the accounts in the Ledger.

The totals appearing on the *Debit* side of the Cash Book at the close of the transactions previously enumerated are, as set out on that side of the Cash Book, as under—

TOTAL OF "CASH" DEBIT COLUMN.	TOTAL OF "BANK" DEBIT COLUMN.
£47 10*s*. 0*d*.	£1,777 0*s*. 10*d*.

These totals would, in actual practice, be temporarily inserted in their respective columns *in pencil.*

The corresponding totals appearing on the *Credit* side of the Cash Book are—

TOTAL OF "CASH" CREDIT COLUMN.	TOTAL OF "BANK" CREDIT COLUMN.
£33 4*s*. 0*d*.	£847 10*s*. 0*d*.

These totals again would, in practice, be inserted temporarily in their respective columns *in pencil.*

The differences or "balances" between the respective totals of the columns are consequently as under (the total of the "*Credit*" Cash column being deducted from the total of the "*Debit*" Cash column, and the same process being carried out in the case of the "Bank" columns).

"BALANCE" OF "CASH" COLUMNS.	"BALANCE" OF "BANK" COLUMNS.
£14 6*s*. 0*d*.	£929 10*s*. 10*d*.

These "balances" are inserted in the "Cash" and "Bank" credit columns respectively, under the designation of "Balances carried down"—they represent, in the one case, the amount of cash remaining in the Cashier's hands and, in the other, the amount of money left in the hands of the Bankers at the close of all the above-stated transactions; the two "Cash" columns and the two

"Bank" columns are then added up and the totals, which, by means of the insertion of the balances, have been made to equal one another as regards each pair of columns, are now inked in.

The "Cash" columns are thus both of them arranged to add up to £47 10*s.*, and the "Bank" columns to £1,777 0*s.* 10*d.*, and the account is completed by the ruling of transverse lines across the columns in the customary way as shown in the Cash Book given hereafter by way of illustration.

The "balances" previously mentioned are now re-entered on the opposite side to that upon which they have already been included, and *below* the "ruling off," *i. e. below* the transverse lines already ruled across the money columns.

These balances represent the amounts of Cash in hand and at the Bank at the close of the transactions for the period recorded, and form the balances of the respective accounts which are now ready for inclusion in the Trial Balance. They also constitute the starting balances for the next trading period.

These two balances are then entered in the Trial Balance, according to the side of the Cash Book (in this case the Debit side) upon which they are *brought down.*

Every other Ledger Account is treated in similar manner, subject to the following rules—

(1) That in the case of those accounts where the total debit postings exceed the total credit postings the balance "carried down" is necessarily entered on the *Credit* side of the Ledger Account, in order to make the sides agree, and the balance "brought down" is entered on the *Debit* side both in the Ledger Account and in the Trial Balance.

(2) That in the case of those accounts where the total credit postings exceed the total debit postings the balance "carried down" appears on the *Debit* side, and the balance "brought down" appears on the *Credit* side both in the Ledger Account and in the Trial Balance.

(3) That in the case of those accounts wherein the total debit postings exactly equal the total credit postings, all that needs to be done is the addition of both sides, followed by the "ruling off" of the account. There is, in these cases, of course, no balance to enter in the Trial Balance. As the student has already been advised, the usual and better practice is to enter *balances only* in the Trial Balance, and *not* the total debit and credit of each

CASH BOOK

Dr.

Date.			Cash. £	s.	d.	Bank. £	s.	d.
19— Jan. 1	To Balances in hand	J.	25	0	0	300	0	0
" 1	" Cash, M. Robinson's Capital Account	22				1,100	0	0
" 1	" Cash, M. Robinson's Current Account	8				105	0	0
" 3	" J. Smith	5				43	0	0
" 6	" J. Smith, on Account ...	5				2	0	0
" 6	" Cheque cashed	C.	6	10	0			
" 7	" Cash Sale, 1 second-hand bicycle	15				1	5	0
" 7	" Bank	C.	10	0	0			
" 9	" B. Walters	7				25	15	10
" 9	" A. Graves, Bill to Bank	3				75	0	0
" 10	" B. Walters, Bill	3				125	0	0
" 11	" Bank	C.	6	0	0			
			£47	10	0	£1,777	0	10
19— Jan. 11	To Balances brought down		14	6	0	929	10	10

Cr.

Date.			Cash. £	s.	d.	Bank. £	s.	d.
19— Jan. 1	By Cheque, J. Druce, Goodwill	20				550	0	0
" 1	" Purchases, 4 doz. crates at 3*s.*	14	7	4	0			
" 4	" Cheque for Wages	C.				6	10	0
" 4	" Office Salaries and Wages	13	6	10	0			
" 4	" J. Druce, Drawing Account	17	3	0	0			
" 4	" M. Robinson, Drawing Account	18	3	0	0			
" 6	" A. Fisher, cheque on Account	10				25	0	0
" 6	" Bill Payable (Unwin) ...	12				90	0	0
" 7	" Purchases, 2 second-hand bicycles	14	1	10	0			
" 7	" Petty Cash	C.				10	0	0
" 8	" Bill Payable (Lord)	12				85	0	0
" 8	" Bill Dishonoured (A. Graves)	6				75	0	0
" 11	" Cheque for Petty Cash	C.				6	0	0
" 11	" Office Salaries & Wages	13	6	0	0			
" 11	" J. Druce, Drawing Account	17	3	0	0			
" 11	" M. Robinson, Drawing Account	18	3	0	0			
" 11	" Balances carried down ...	√	14	6	0	929	10	10
			£47	10	0	£1,777	0	10

Note.—In dealing with an exercise of this type, many candidates confine the Cash Book to the "Bank" transactions, and open a separate "Petty Cash Book" for the "Cash" transactions. This practice is rapidly becoming universal in actual practice, and is to be commended. Both methods, however, are correct.

account as some examination candidates do. The latter method arrives at the same "balance," of course, but it is not in accord with actual practice, neither is it convenient.

The Trial Balance thus constructed, simultaneously with the ruling off of all the accounts, is set out on p. 637, and it will be found to "agree" or "balance"; in other words, both the debit and credit columns in this statement add up to £2,487 4*s*., and an inference as to the probable correctness of the book-keeping consequently arises.

At the close of the specimen examination question which has been dealt with in detail above, a conspicuous note is appended to the effect that "*No Profit and Loss Account or Balance Sheet is to be prepared.*" It would seem to be unnecessary to recommend students to pay explicit attention to definite directions of this character, and yet it is the fact that many students *do* (in spite of such notes) append one or other, or both, of the documents which are clearly stated as not being required, and for which, therefore, it is obvious that no marks can be awarded. In this manner the examinee frequently wastes valuable time through sheer carelessness.

SALES BOOK

			£	*s.*	*d.*	£	*s.*	*d.*
19— Jan. 2	A. Brown, 3 bicycles at £7 10*s*.	4				22	10	0
" 3	B. Walters, 2 bicycles at £8 8*s*.		16	16	0			
	2 crates at 3*s*. 6*d*.	7		7	0	17	3	0
" 6	J. Smith, 1 bicycle	5				7	10	0
" 9	B. Walters, 20 brakes at 2*s*. ...		2	0	0			
	6 lamps at 5*s*.	7	1	10	0	3	10	0
" 10	A. Graves, second-hand bicycle					1	10	0
	Total credited to Ledger Account	15				£52	3	0

PURCHASES BOOK

			£	*s.*	*d.*	£	*s.*	*d.*
19— Jan. 1	H. Sweeting, 1 doz. frames at 15*s*.	9				9	0	0
" 3	A. Fisher, 6 pairs wheels at 30*s*.		9	0	0			
	Accessories	10	5	0	0	14	0	0
" 9	F. Lord, 6 doz. lamps at 3*s*. each	11				10	16	0
	Total debited to Ledger Account	14				£33	16	0

RETURNS INWARDS BOOK

			£	s.	d.	£	s.	d.
19— Jan. 2	A. Brown, 1 bicycle	4				7	10	0
	Total debited to Ledger account	16				£7	10	0

JOURNAL

			Dr.			Cr.		
			£	s.	d.	£	s.	d.
19— Jan. 1	Sundries: Dr.							
	To Sundries, viz.—							
	Cash at Bank	C.	300	0	0			
	Cash in hand	C.	25	0	0			
	Stock	1	650	0	0			
	Furniture and Fittings ...	2	120	0	0			
	Bills Receivable	3	200	0	0			
	A. Brown	4	25	0	0			
	J. Smith	5	45	0	0			
	A. Graves	6	20	0	0			
	B. Walters	7	10	0	0			
	M. Robinson	8	105	0	0			
	H. Sweeting	9				150	0	0
	A. Fisher	10				75	0	0
	Bills Payable	11				175	0	0
	John Druce, Capital Account	21				1,100	0	0
	For Assets, Liabilities, and Capital, as at this date ...		£1,500	0	0	£1,500	0	0
	Allowances Account Dr.	19	2	0	0			
Jan. 3	To J. Smith for Allowance *re* Bicycle damaged in transit	5				2	0	0
„ 9	Bills Receivable ....Dr.	3	95	0	0			
	To A. Graves, for acceptance received	6				95	0	0
„ 11	Bills Receivable ....Dr.	3	40	0	0			
	To A. Brown for acceptance received	4				40	0	0
			£137	0	0	£137	0	0

LEDGER

1 Stock Account 1

Dr. Cr.

			£	s.	d.						
19— Jan. 1	To Balance	J	650	0	0						
		£	650	0	0						

2 Furniture and Fittings Account 2

Dr. Cr.

			£	s.	d.						
19— Jan. 1	To Balance	J	120	0	0						
		£	120	0	0						

3 **Bills Receivable** **3**

Dr. **Cr.**

Date		Fo.	£	s.	d.	Date		Fo.	£	s.	d.
19—						19—					
Jan. 1	To Balance—					Jan. 9	By Cash	C	75	0	0
	A. Graves ...	J	75	0	0	„ 10	By Cash	C	125	0	0
	B. Walters ...	J	125	0	0	„ 11	Balance carried down ...	√	135	0	0
„ 9	„ A. Graves, Bill dishonoured	J	95	0	0						
„ 11	„ A. Brown ...	J	40	0	0						
		£	335	0	0			£	335	0	0
19—											
Jan. 11	To Balance brought down	√	135	0	0						

4 **A. Brown** **4**

Dr. **Cr.**

Date		Fo.	£	s.	d.	Date		Fo.	£	s.	d.
19—						19—					
Jan. 1	To Balance	J	25	0	0	Jan. 2	By Returns	R	7	10	0
„ 2	„ Goods	S	22	10	0	„ 11	„ Bills Receivable	J	40	0	0
		£	47	10	0			£	47	10	0

5 **J. Smith** **5**

Dr. **Cr.**

Date		Fo.	£	s.	d.	Date		Fo.	£	s.	d.
19—						19—					
Jan. 1	To Balance	J	45	0	0	Jan. 3	By Cheque	C	43	0	0
„ 6	„ Goods	S	7	10	0	„ 6	„ Cash	C	2	0	0
						„ 6	„ Allowance ...	J	2	0	0
						„ 11	„ Balance carried down...	√	5	10	0
		£	52	10	0			£	52	10	0
	To Balance brought down	√	5	10	0						

6 **A. Graves** **6**

Dr. **Cr.**

Date		Fo.	£	s.	d.	Date		Fo.	£	s.	d.
19—						19—					
Jan. 1	To Balance	J	20	0	0	Jan. 9	By Bill Receivable	J	95	0	0
„ 8	„ Bill dishonoured.........	C	75	0	0	„ 11	„ Balance carried down...	√	1	10	0
„ 10	„ Goods	S	1	10	0						
		£	96	10	0			£	96	10	0
19—											
Jan. 11	To Balance brought down	√	1	10	0						

7 **B. Walters** 7

Dr. Cr.

			£	s.	d.				£	s.	d.
19—						19—					
Jan. 1	To Balance	J	10	0	0	Jan. 8	By Cheque	C	25	15	10
" 3	" Goods	S	17	3	0	" 11	" Balance carried down...	√	4	17	2
" 9	" Goods	S	3	10	0						
		£	30	13	0			£	30	13	0
19—											
Jan. 11	To Balance brought down	√	4	17	2						

8 **M. Robinson** 8

Dr. Cr.

			£	s.	d.				£	s.	d.
19—						19—					
Jan. 1	To Balance	J	105	0	0	Jan. 1	By Cash	C	105	0	0
		£	105	0	0			£	105	0	0

9 **H. Sweeting** 9

Dr. Cr.

			£	s.	d.				£	s.	d.
19—						19—					
Jan. 11	To Balance carried down...	√	159	0	0	Jan. 1	By Balance	J	150	0	0
						" 1	" Goods	P	9	0	0
		£	159	0	0			£	159	0	0
						19—					
						Jan. 11	By Balance brought down	√	159	0	0

10 **A. Fisher** 10

Dr. Cr.

			£	s.	d.				£	s.	d.
19—						19—					
Jan. 6	To Cheque	C	25	0	0	Jan. 1	By Balance	J	75	0	0
" 11	" Balance carried down...	√	64	0	0	" 3	" Goods	P	14	0	0
		£	89	0	0			£	89	0	0
						19—					
						Jan. 11	By Balance brought down	√	64	0	0

11 **F. Lord** 11

Dr. Cr.

									£	s.	d.
						19—					
						Jan. 9	By Goods	P	10	16	0
								£	10	16	0

12 **Bills Payable** 12

Dr.			£	s.	d.		Cr.		£	s.	d.
19—						19—					
Jan. 6	To Cheque	C	90	0	0	Jan. 1	By Balance—				
„ 8	„ Cheque	C	85	0	0		S. Unwin ...	J	90	0	0
							F. Lord	J	85	0	0
		£	175	0	0			£	175	0	0

13 **Wages and Salaries** 13

Dr.			£	s.	d.		Cr.		£	s.	d.
19—						19—					
Jan. 4	To Cash	C	6	10	0	Jan. 11	By Balance carried down...	√	12	10	0
„ 11	„ Cash	C	6	0	0						
		£	12	10	0			£	12	10	0
19—											
Jan. 11	To Balance brought down	√	12	10	0						

14 **Purchases Account** 14

Dr.			£	s.	d.		Cr.		£	s.	d.
19—						19—					
Jan. 4	To Cash	C	7	4	0	Jan. 11	By Balance carried down...	√	42	10	0
„ 7	„ Cash	C	1	10	0						
„ 11	„ Sundry purchases on credit, as per Purchases Book	P	33	16	0						
		£	42	10	0			£	42	10	0
19—											
Jan. 11	To Balance brought down	√	42	10	0						

15 **Sales Account** 15

Dr.			£	s.	d.		Cr.		£	s.	d.
19—						19—					
Jan. 11	To Balance carried down...	√	53	8	0	Jan. 7	By Cash sale ...	C.	1	5	0
						„ 11	„ Sundry Sales on credit as per Sales Book	S.	52	3	0
		£	53	8	0			£	53	8	0
						19—					
						Jan. 11	By Balance brought down	√	53	8	0

16 Returns Inwards 16

Dr. **Cr.**

			£	s.	d.				£	s.	d.
19— Jan. 11	To Sundry returns as per Returns Inwards Book	R	7	10	0						
		£	7	10	0						

17 J. Druce, Drawing Account 17

Dr. **Cr.**

			£	s.	d.				£	s.	d.
19— Jan. 4	To Cash	C	3	0	0	19— Jan. 11	By Balance carried down...	√	6	0	0
„ 11	„ Cash	C	3	0	0						
		£	6	0	0			£	6	0	0
19— Jan. 11	To Balance brought down	√	6	0	0						

18 M. Robinson, Drawing Account 18

Dr. **Cr.**

			£	s.	d.				£	s.	d.
19— Jan. 4	To Cash	C	3	0	0	19— Jan. 11	By Balance carried down...	√	6	0	0
„ 11	„ Cash	C	3	0	0						
		£	6	0	0			£	6	0	0
19— Jan. 11	To Balance brought down	√	6	0	0						

19 Allowances Account 19

Dr. **Cr.**

			£	s.	d.				£	s.	d.
19— Jan. 3	To J. Smith	J	2	0	0						
		£	2	0	0						

20 Goodwill Account 20

Dr. **Cr.**

			£	s.	d.				£	s.	d.
19— Jan. 1	To Cash (J. Druce)	C	550	0	0						
		£	550	0	0						

21 **J. Druce, Capital Account** **21**

Dr. **Cr.**

						19—			£	s.	d.
						Jan. 1	By Balance ...	J	1,100	0	0
								£	1,100	0	0

22 **M. Robinson, Capital Account** **22**

Dr. **Cr.**

						19—			£	s.	d.
						Jan. 1	By Cash	C	1,100	0	0
								£	1,100	0	0

TRIAL BALANCE, January 11, 19—

	Dr.			Cr.		
	£	s.	d.	£	s	d.
M. Robinson, Capital Account				1,100	0	0
J. Druce, Capital Account				1,100	0	0
M. Robinson, Drawing Account	6	0	0			
J. Druce, Drawing Account	6	0	0			
Goodwill Account	550	0	0			
Sales Account				53	8	0
Allowances Account	2	0	0			
Returns Inwards Account	7	10	0			
Purchases Account	42	10	0			
Wages and Salaries	12	10	0			
Stock Account	650	0	0			
Furniture and Fittings Account	120	0	0			
Bills Receivable	135	0	0			
Sundry Debtors—						
J. Smith	5	10	0			
A. Graves	1	10	0			
B. Walters	4	17	2			
Sundry Creditors—						
H. Sweeting				159	0	0
A. Fisher				64	0	0
F. Lord				10	16	0
Cash in hand	14	6	0			
Cash at Bank	929	10	10			
	£2,487	4	0	£2,487	4	0

Examination Exercise II

(*1*) From the following Trial Balance of the accounts of a Manufacturing Company (whose authorised Capital consists of 15,000 Ordinary Shares of £10 each) prepare a Trading Account and a Profit and Loss Account for the year ending December 31, 19—, and a Balance Sheet as on that date.

	£	s.	d.	£	s.	d.
(*2*) Capital issued and fully paid up, 9,000 shares of £10 each . . .				90,000	0	0
(*3*) Stock (January 1, 19—) .	32,000	0	0			
(*4*) Cash in hand . . .	150	0	0			
(*5*) Cash at Bank . . .	2,900	0	0			
(*6*) Purchases . . .	52,350	0	0			
(*7*) Sales				136,500	0	0
(*8*) Do. Returns . . .	400	0	0			
(*9*) Purchases Returns . .				750	0	0
(*10*) Manufacturing Charges .	11,500	0	0			
(*11*) Manufacturing Wages .	28,550	0	0			
(*12*) Salaries	1,500	0	0			
(*13*) Trade Expenses . .	6,850	0	0			
(*14*) Rates and Taxes . .	250	0	0			
(*15*) Insurance . . .	190	0	0			
(*16*) General Expenses . .	2,640	0	0			
(*17*) Discounts (balance)	1,800	0	0			
(*18*) Bad Debts . . .	570	0	0			
(*19*) Interest and Bank Charges	350	0	0			
(*20*) Land and Buildings. .	22,250	0	0			
(*21*) Machinery and Plant .	35,600	0	0			
(*22*) Sundry Debtors . .	52,500	0	0			
(*23*) Sundry Creditors . .				21,750	0	0
(*24*) Patents	5,000	0	0			
(*25*) Bad Debts Provision (January 1, 19—) . .				2,600	0	0
(*26*) Profit and Loss (balance, January 1, 19—) . .				750	0	0
(*27*) Reserve				5,000	0	0
	£257,350	0	0	£257,350	0	0

(*28*) Charge Depreciation on Land and Buildings Account at 3 per cent. per annum, and (*29*) on Machinery and Plant Account at 6 per cent.; (*30*) make a reserve of 5 per cent. on the Sundry Debtors for Bad Debts; (*31*) write down Patents Account by 10 per cent.; (*32*) carry forward £90 of Insurance; and (*33*) charge £500 as Directors' Fees; (*34*) the value of the Stock as on December 31, 19—, was agreed at £23,700; (*35*) charge 10 per cent. on net profits as remuneration to the Managing Director; and (*36*) appropriate £2,500 to the Reserve Account, carrying forward the balance.

The next exercise to be worked is set out above. It was set at a well-known examination, and illustrates a type which is to be found in almost every book-keeping examination paper, except those of a very elementary character. That this type of question should frequently occur is not surprising, in view of the fact that it reproduces a problem of everyday occurrence in accountancy practice.

A Trial Balance, already extracted and agreed, is given,

from which the candidate is required to prepare a Trading Account, a Profit and Loss Account, and a Balance Sheet, and, in the construction of these accounts, he is required to embody the various adjustments set out in a note at the foot of the Trial Balance.

The question here arises as to whether or not the Accounts to be presented are to be drawn up in a form complying with the requirements of the Companies Act, 1948. The exercise here dealt with was set before 1947, and the answer obviously could not be intended to comply with the Act; the answer here given is the answer as originally intended, and consequently does *not* (except so far as it may do so accidentally) comply with the Act. The writer considers that examinees may reasonably expect that in any question dealing with the final Accounts of limited companies a clear instruction will be given to candidates as to whether the Accounts to be drawn up are or are not to be in a form suitable for publication—that is to say, whether or not they are to comply fully with the provisions of the Act. Questions requiring the candidate to draw up a Balance Sheet *not* fully complying will undoubtedly continue to be set, for two reasons: (1) that full compliance will make the question considerably more difficult that it would otherwise be, and it is not desirable that all questions should be made as difficult as possible; (2) that to give a full answer would in most cases involve the examiner giving a good deal of additional information, beyond that necessary for the points on which the candidate's knowledge is being tested, thus making the question paper unduly long. As a consequence, an examinee must expect two types of such questions: those requiring an answer fully complying with the Act and those not requiring such compliance. It will be important in reading any question within this category to decide which is intended.

It is also important to appreciate that the statutory requirements of the Companies Acts only apply to such Accounts as are required by statute to be circulated to the members. In practice, Profit and Loss Accounts and Balance Sheets are needed for numerous other purposes: for such purposes the requirements are not laid down by statute, but are fixed by the particular purposes for which the Accounts are required. Two obvious examples are the detailed trading and profit and loss figures which

the directors must know as a matter of course to enable them to carry out their functions properly, but which are practically never shown to the shareholders, and the (probably rather less detailed) figures which will be required by the Inspector of Taxes before he can agree the Company's taxation liability. As regards the Balance Sheet, again, the directors will need to know a considerable amount of detail in addition to that afforded by a " statutory " Balance Sheet, but the form in which that information is to be provided is entirely at the discretion of the directors themselves, and has nothing to do with any Act.

In the present case it is assumed that the solution required is an " accountant's " Balance Sheet, not a statutory Balance Sheet under the Companies Act.

It may be remarked, in passing, that some candidates when confronted with this type of question frequently spoil their otherwise correct solutions by omitting one or more of the provisions or adjustments (set forth at the foot of the Trial Balance) which the student is instructed to include in the final accounts he is asked to prepare. The student will be wise, therefore, in every case to read through with the utmost care the *whole* of such a problem as set in an examination paper, paying special attention to any notes appearing at the foot of it, and carefully ticking off the necessary adjustments as and when dealt with.

As indicated in Chapter XXV, the candidate will be wise, if he considers that time permits, to *journalise* these adjustments, in order to ensure their correct appearance subsequently in the accounts required by the terms of the question.

Such journal entries, unless specifically called for by the examiner, do not however, form part of the candidate's answer and need not be set out fully (*e.g.* with " narration," or with more neatness than is necessary to avoid ambiguity) and may be on rough or " scrap " paper.

The various " balances " set out in the above Trial Balance, for the sake of convenience of subsequent description and reference, have been numbered consecutively in the example illustrated, as also have all the other material particulars included in the question. Such numbering does not, of course, appear in the actual examination paper. In answering a question of this type,

the various balances and items have, of course, to be extracted for the purpose of being inserted in the candidate's solution successively, although not necessarily in the order set out in the question; it is, therefore, a wise precaution for a candidate to "tick," run through with his pen, or otherwise mark on the printed examination paper supplied to him, each item or balance as he makes use of it in constructing his answer; such a process renders the accidental omission of any material item much less probable.

Having carefully perused the question, the candidate is in a position to commence his answer. The first account asked for, and the account therefore to be first attempted, is the Trading Account, the principles of the construction of which have already been explained in Chapter IX.

The candidate must bear in mind the usual form in which a Trading Account is presented, and it is, as a rule, more convenient to commence its preparation with the items appearing upon the Debit side.

It must be remembered that a Trading Account is a statement showing the results for the *whole* of the financial period under review. The account required in the example before us must thus be headed "Trading Account for the year ended December 31, 19—." It will also be remembered that only one item in the Trading Account, viz. the opening stock of goods on hand, is included in that account under the date of the first day of the trading period (January 1, 19—), and that all the other items in the account, being either the totals of various classes of transactions for the whole period (*e. g.* sales) or the Stock on hand at the close of the period bear the date of the last day of the period (December 31, 19—).

The first item to be inserted in the Trading Account is the Stock of Goods on hand at the commencement of the trading period.

Item No. 3.

"*Stock, January* 1, 19— . . £32,000."

This item in the Trial Balance represents the stock of goods owned by the Manufacturing Company at the commencement of the period under review, and must be placed in the Trading Account at the head of the Debit side of the Account with the date, January 1, 19—,

annexed. The item is debited to the Trading Account for the year because the business has, during that period, had the use of the stock which was handed over by the previous trading period to the new trading period, and has doubtless, during the year, disposed of the greater part of it.

Items Nos. 6 *and* 9.

The next items to be brought into the account are Items 6 and 9, as under—

"*Purchases* . . . £52,350."
"*Purchases Returns* . . £750."

Nature of the items.—These balances are of the following significance, viz. the item "Purchases, £52,350," represents the fact that the Company has, during the year, purchased goods to this amount. The company whose accounts are in course of preparation is a manufacturing concern, and the total in question consequently represents the cost of commodities purchased in a raw condition, to be subsequently worked up into saleable articles.

Destination.—The balance under consideration must consequently be included in the Debit side of the Trading Account, as the business has had the use of the goods. But for the fact that some of the articles included in the total have been returned to the vendors, the amount would be inserted direct in the principal Debit column of the Account. Seeing, however, in view of Item No. 9, that "returns" have taken place, the item is placed in the "short" Debit column, where the effect of the Returns made is also dealt with in due course.

Item No. 9.

"*Purchases Returns* . . . £750."

Nature of the item.—This item represents the total value of the goods bought, and subsequently returned to the persons from whom they were received ; the total is, of course, included in the total "Purchases," since, from a book-keeping standpoint, Purchases and Purchases Returned are kept in separate accounts.

Destination.—Inasmuch as the Purchases thus returned to the respective vendors (£750) are included in the total Purchases (£52,350), and the latter total is to that extent

overstated, the overstatement of the Purchases must be corrected prior to the insertion of the latter amount in the Trading Account.

As has already been stated, the Purchases (£52,350) must be entered on the Debit side of the Trading Account, and the Purchases Returns (£750) could, if so desired, be included on the Credit side of the account. This, however, would not be good book-keeping. It is essential that the Purchases for the period should appear at their true *net* figure free from the inflating effect of any Returns that have subsequently been made, and the modern practice, therefore, is to place the Purchases Returns in the Trading Account upon the *Debit* side in the "short" column, immediately underneath the Purchases themselves, which, as explained above, are also entered "short." The Purchases Returns are then *deducted* from the Purchases, and a *net* figure of Purchases (in this case £51,600) is obtained for extension into the principal Debit cash column of the account.

It is convenient at this stage to consider items Nos. 7 and 8, as their method of treatment is to a certain extent analogous to the above, viz.—

"Sales	£136,500."
"Sales Returns	£400."

Item No. 7.

"*Sales* . . . . . £136,500."

Nature of the item.—This figure represents the total value of the manufactured goods sold during the period; *i. e.* the total of the goods parted with, whether for cash or upon credit.

Destination.—The item must be included on the Credit side of the Trading Account, as the goods have been parted with by the business. In manner analogous to the "Purchases" total, it is entered in the "short" column in order that the Returns Inwards ("Sales Returns, £400," as mentioned below) may be deducted from it for the purpose of obtaining a *net* figure of Sales for the trading period free from the inflating effect of any Returns.

Item No. 8.

"*Sales Returns* . . . . £400."

Nature of the item.—This figure represents the total of the goods sold (included in sales) which have been sub-

sequently returned to the Company by the persons to whom they were originally sent.

Destination.—The item must be entered in the Trading Account upon the *Credit* side as a *deduction* from the Sales; the net figure of Sales thus arrived at (£136,100) is extended into the principal Credit cash column of the Trading Account, and represents the actual *net* volume of the Sales for the trading period.

So far, as has already been indicated, the items (opening stock, purchases and sales) entered in the Trading Account are such as appear in the Trading Account of every business, whether the business concerned deals in goods purchased in condition ready for re-sale, or whether the undertaking in question itself manufactures the goods it sells.

The Company under review is, however, a manufacturing one; and it will be remembered that, in the Trading Account of such an undertaking, all expenses and charges which are directly involved in the production of a finished article in a saleable condition have to be charged, in company with the cost of the raw materials bought, in the Trading Account, and not in the Profit and Loss Account, in order that a reliable figure of gross profit may be arrived at. All expenses connected with the *selling* and *distributing* the goods, when manufactured and ready for sale, are chargeable to the Profit and Loss Account; as between the expense of producing goods in a condition ready for sale and the expense of selling such goods, a line of demarcation has to be drawn, and the effects of the distinction so decided upon must be embodied in the accounts.

The two following items (Nos. 10 and 11) are expenses of manufacture, and are therefore brought into the Trading Account, viz.—

"Manufacturing wages . . £28,550."
"Manufacturing charges . . £11,500."

Item No. 11.

"*Manufacturing Wages* . . £28,550."

Nature of the item.—This item represents the cost of the labour expended in working up the raw materials purchased into finished goods; without such labour the finished articles could not have been produced in a condition ready for sale, and the cost of the necessary labour

is consequently a proper charge against the selling price obtained for the goods.

Destination.—The item must therefore be debited in the Trading Account, as an addition to the cost of the raw materials (Purchases) already included there.

Item No. 10.

" *Manufacturing Charges* . . £11,500."

Nature of the item.—This amount represents the total of the further expenditure (beyond the cost of raw materials and wages) which has been necessary in order to produce finished articles in a condition ready for sale.

Destination.—It is consequently necessary to debit the item to the Trading Account, as an addition to the cost of the raw materials and the cost of labour already included.

All " Trading Account " items appearing in the Trial Balance have now been brought into the Account, and it remains to consider the question of the Stock in hand at the end of the period; the Trading Account must be given Credit for the amount of this item prior to ascertaining the amount of the " gross profit " for the period.

Item No. 34, mentioned in the notes annexed to the Trial Balance, sets forth the fact that the stock at December 31, 19—, was agreed at £23,700.

Item No. 34.

" *Stock, December* 31, 19— . £23,700."

Nature of the item.—This item represents the value of the stock of goods (consisting, doubtless, partly of raw materials and partly of goods in various stages of manufacture) held at the close of the period.

Destination.—The item must be included in the Trading Account on the Credit side, in order that the true Gross Profit made may be arrived at. The reason for this is that the period under review has borne all the cost of purchasing or producing these goods, and therefore must be credited with their value when they are handed on to the next trading period. The Stock on hand will also, at a later stage in the solution of the exercise, require to be brought, as an asset, into the Balance Sheet which has to be prepared under date, December 31, 19—.

All Trading Account items have now been entered in the Trading Account, with the exception of the Balance or "Gross Profit," and it remains to ascertain the amount of the latter. When this has been done the Account is closed by means of a transfer of the balance of the Account (Gross Profit or Gross Loss as the case may be) to the Profit and Loss Account.

The items placed in the Trading Account on the Debit side total up to £123,650, and those inserted on the Credit side amount to £159,800; the difference between these sums (£36,150) represents the "Gross Profit" derived from the trading operations during the period and is inserted in the account on the Debit side in order to make the two sides agree. Both sides of the Trading Account will then amount to £159,800.

The Gross Profit is next entered in the Profit and Loss Account upon the Credit side, and forms the first entry in this account, and represents the sum available against which to charge the remaining expenses. In the example given above it forms the only entry on the Credit side of the Account, there being no other "profit" balances to be included.

The next step in the preparation of the Profit and Loss Account is the transfer to this Account of the various "Expense" and "Loss" balances appearing in the Trial Balance.

The following items are of a similar nature, and may be conveniently grouped in their explanation—

Item No.	*12.*	"*Salaries*	£1,500."
,,	*13.*	"*Trade Expenses* . .	£6,850."
,,	*14.*	"*Rates and Taxes* . .	£250."
,,	*16.*	"*General Expenses* . .	£2,640."
,,	*17.*	"*Discount Account* (*balance*).	£1,800."
,,	*18.*	"*Bad Debts*	£570."
,,	*19.*	"*Interest and Bank Charges*	£350."

These items are all of the nature of "Losses" or "Expenses" arising out of the operation of effecting the Sale and distribution of the finished goods, and consequently, in each case, they require to be charged against the Gross Profit derived from the sale of the goods; in other words, their *destination* is the Debit side of the Profit and Loss Account.

Taking the items separately, as regards their nature,

"*Salaries*, £1,500," represents the total amount paid to the counting-house staff, travellers and other employees engaged in selling the company's goods. A distinction is here drawn between "Manufacturing Wages," which form part of the cost of *producing* the finished article, and "Salaries," which are charges incurred in the process of *selling* such article.

"*Trade Expenses*, £6,850."—This item doubtless represents the hundred and one forms of miscellaneous expenditure necessary in any large business undertaking (*e. g.* Boxes, Gratuities, Packing expenses, String, Cleaning, Catalogues, Postages, Telegrams, etc.).

"*Rates and Taxes*, £250."—This item represents money spent in discharging the local rates, etc., levied upon the premises in which the business of the Company is carried on, and the various forms of governmental taxes, *e. g.* land tax, etc.

"*General Expenses*, £2,640."—This item represents a further aggregate of miscellaneous "loss" and expenditure (*e. g.* Repairs, Travelling expenses, Garage expenses, Lighting, Heating, Advertising, Exhibition expenses, Audit fee, etc.).

"*Discount Account* (*balance*), £1,800."—This item represents the balance of the Discount Account, *i. e.* the difference between the total discounts allowed and the total discounts received, the total discounts "allowed" being, in this case, the greater of the two classes. The balance of the account therefore forms a charge against the profits for the period.

"*Bad Debts*, £570."—This item represents the total amount of the debts written off as absolutely "bad," *i. e.* irrecoverable; it must be distinguished from the "Reserve for Bad Debts" mentioned in the footnote, and dealt with later; the former item represents actual debts definitely ascertained to be bad, and requiring to be written off, while the latter charge represents an estimated provision considered to be necessary for debts which, though doubtful, have not yet reached the point at which it is necessary to write them off the books.

"*Interest and Bank Charges*, £350."—This item represents the total interest paid to the various persons from whom money has been borrowed throughout the year, and the charges (doubtless including also some interest) paid to the bank.

Item No. 15.

"*Insurance* . . £190."

This item requires special treatment. Footnote No. 32 states "carry forward £90 of Insurance." This instruction arises out of the fact that £190 has been paid during the year for insurance premiums, of which only £100 has, at the date of balancing, run off, leaving therefore a balance of £90, representing insurance which covers part of the new Trading period, and which requires to be carried forward as a charge against the profits of the ensuing year. As on December 31, 19—, this £90 prepaid insurance ranks as an Asset because it is a prepayment from which the succeeding period will derive benefit.

Of the £190 debit balance, therefore, appearing in the Trial Balance as Insurance, £100 requires to be debited in the current Profit and Loss Account, while the balance of £90 must be included as an Asset in the Balance Sheet.

The above " Losses " having been inserted in the Profit and Loss Account, it remains to embody in this account the effect of the various adjustments and provisions which are called for in the note at the foot of the Trial Balance.

The first adjustments to be referred to are Nos. 28 and 29, wherein the charging of depreciation on Land and Buildings Account (balance, £22,250) at 3 per cent. per annum, and on Machinery and Plant Account (balance, £35,600) at 6 per cent. per annum is directed.

Items Nos. 28 and 29.

Nature of the allowances.—Since the Land and Buildings and Plant and Machinery have been employed during the year for the purposes of the business, it is to be presumed that the former two items have become, by reason of use and " wear and tear," of less value, although it may be said, in passing, that land is not usually depreciated when preparing accounts if it be freehold. The Buildings have, in this case, evidently become of less value owing perhaps to advancing age or other causes. In almost every business Plant and Machinery become steadily of less value as they are used, and the rate of wastage (" depreciation ") in their case is much greater than in the case of more lasting assets such as Land and Buildings. In the question before us this characteristic

difference is exemplified in the higher rate chargeable in the case of Plant and Machinery (6 per cent.) as compared with that provided in the case of Land and Buildings (3 per cent.).

The allowances indicated will be found to amount to the following sums—

Land and Buildings, 3 per cent. per annum for one year on £22,250 = £667 10*s.*

Plant and Machinery, 6 per cent. per annum for one year on £35,600 = £2,136.

Destination of the items.—The Profit and Loss Account is debited with both these allowances, representing, as they do, the estimated wastages, through use, of the respective Assets, whilst employed in assisting to make the Gross Profit set out on the Credit side to the account.

The "Land and Buildings" Account in the Ledger would, if shown, be credited with £667 10*s.*, and the "Plant and Machinery" Account would similarly be credited with £2,136; these two accounts, however, are not shown in the candidate's answer, as they are not required by the question. The effect of the depreciation allowances made is therefore brought into account when preparing the Balance Sheet subsequently, by deducting them from their respective asset figures. In other words, "Land and Buildings" standing in the Trial Balance at £22,250 are taken into the Balance Sheet at £21,582 10*s.* (*i.e.* £22,250 minus £667 10*s.*), and "Plant and Machinery" are included at £33,464 (viz. £35,600 minus £2,136).

Item No. 31.

Note No. 31 directs that "Patents" Account shall be written down by 10 per cent. Patents Account stands at £5,000 in the Trial Balance, and the necessary provision of 10 per cent. amounts, therefore, to £500.

Nature of the item.—"Patents Account, £5,000," presumably represents the cost of patent rights owned by the Company. Grants of "Letters Patent" confer the exclusive privilege of manufacturing certain inventions; and, as letters patent are only conferred by law for sixteen years from the date of the grant, the value of any capital expended in purchasing a patent becomes steadily less as the years pass by. It is therefore necessary to reduce the book value of patents every year by writing

off a certain sum, representing, as far as possible, the wastage in the "life" of the patent.

Destination of the item.—The Profit and Loss Account is debited with £500, representing the shrinkage in the value of the patent rights owing to effluxion of time; and this charge, to some extent, resembles the depreciation allowances on Land, Buildings, Plant and Machinery previously explained.

The £500 depreciation written off Patents Account is, when subsequently preparing the Balance Sheet, deducted from the £5,000 balance of this account (see Trial Balance), and "Patents" are, therefore, stated in the Balance Sheet at £4,500 (*i. e.* £5,000 minus £500).

Item No. 30.

Item No. 30 directs that a "reserve of 5 per cent. upon the Sundry Debtors (£52,500)" shall be raised.

Nature of the item.—As was explained in Chapter IX a Reserve of this nature is usually created at the end of a trading period in order to cover unascertained losses which may arise owing to the probability that some of the existing debtors will fail to fulfil their obligations.

A Reserve of this nature is expressed most frequently as a fixed percentage of the total book debts outstanding at a given date, as is the case in this particular instance.

Method of arriving at the requisite amount.—The "Sundry Debtors" amount to £52,500, 5 per cent. upon which amounts to £2,625. It is not, however, necessary to set aside the whole of this £2,625 out of current profits, because Item No. 25 ("Bad Debts Reserve, January 1, £2,600") clearly indicates that a Reserve for Bad and Doubtful Debts already exists in the books, to the extent of the £2,600 named, this sum having been set aside out of previous years' profits.

It is, therefore, only the difference between the Reserve *brought* forward (£2,600) and the Reserve to be *carried* forward (£2,625) which requires to be debited to the current Profit and Loss Account as an addition to the existing Reserve.

By thus increasing the existing Reserve to £2,625 there will then be a Reserve amounting to 5 per cent. on the Sundry Debtors standing in the books as directed by the terms of the question.

Destination of the item.—The Profit and Loss Account

is debited with £25, representing the additional Reserve to be set aside out of current profits, and a corresponding addition of £25 is made to the existing Bad Debts Reserve of £2,600 as set out in the Trial Balance. The Bad Debts Reserve, as on December 31, is thus raised to £2,625. If it were necessary to give the Bad Debts Reserve Account in the candidate's answer, the £25 would be shown in the Ledger Account as a credit entry immediately under, and as an addition to, the pre-existing Reserve of £2,600 ; as, however, under the terms of the question it is not necessary to show this account, the candidate must make an addition to the Bad Debts Reserve Account when transferring it to the Balance Sheet, and must include the Bad Debts Reserve at £2,625 when deducting it from the total of the Sundry Debtors on the Assets side of the Balance Sheet.

Item No. 33

directs that £500 is to be charged as " Directors' Fees " due at the end of the period.

Nature of the item.—The item represents the fees due to the Directors for their services during the year but not yet paid.

These fees are consequently a charge against the profits for the period as representing remuneration due for services rendered to the Company; and, as the amount is still unpaid, the Directors must be shown in the Balance Sheet as creditors for the amount of the fees due to them.

Destination of the item.—The Profit and Loss Account is debited with £500 under the designation " Directors' Fees "; while, in preparing the Balance Sheet, £500 is set out as a liability under the heading " Sundry Creditors " (Directors' Fees).

Items Nos. 36 and 35.

Apart from the commission of 10 per cent. on the profits due to the Managing Director, and the £2,500 appropriation to Reserve Account, as directed to be made in footnotes 35 and 36, all the items which required to be entered in the Profit and Loss Account have now been included. The two items above are " appropriations " of the profits made, rather than charges against profits or expenses incurred in carrying on the business, and thus they should not be included in the Profit and Loss Ac-

count proper, but in an " Appropriation " Account at the foot of the Profit and Loss Account. This Appropriation Account is, as its name implies, a section of the Profit and Loss Account in which the profit made is " appropriated " or divided out, as opposed to the first section wherein the details showing how the profit has been arrived at are set out.

It is now possible to close the Profit and Loss Account by inserting an amount on the Debit side sufficient to make the two sides tally. This amount, or " balance," will represent, in the case under review, the **Net Profit** made during the year 19—.

The expenses set forth on the debit side of the Profit and Loss Account add up to £17,888 10*s*., whereas the Gross Profit (the only item) set out on the credit side of the account amounts to £36,150. The difference between these two sums, £18,261 10*s*., represents the Net Profit for the period, and is inserted on the *debit* side of the Profit and Loss Account in order to make the two sides agree.

This amount, representing the Net Profit for the year ended December 31, 19—, is at once carried down to the credit side of the Appropriation Account.

Item No. 26.

The " Balance of Profit and Loss Account, as on January 1, 19— (£750)," represents the undistributed balance of profit brought forward from the previous year, and this item requires to be placed in the Appropriation Account on the credit side, and must be added to the profits made during 19—. The total thus obtained forms the amount at the credit of the current Profit and Loss Account, and shows the balance now available for distribution.

The Credit side of the Appropriation therefore consists of the following items, viz.—

19—		£	*s.*	*d.*
January 1.	Balance brought forward from last year . .	750	0	0
December 31.	Balance brought down, being profit for the year	18,261	10	0
		£19,011	10	0

Items Nos. 35 and 36.

It now remains to consider these two instructions, viz. (35) " to charge 10 per cent. on the profits as remuneration to the Managing Director," and (36) " to appropriate £2,500 to the Reserve Account."

Both these items are, as has already been indicated, appropriations of profit made, as opposed to expenses chargeable against profits; they must therefore appear in the Appropriation section of the Profit and Loss Account.

Item No. 35. " Charge 10 per cent. on the profits as remuneration to the Managing Director."

Nature of the item.—The Managing Director is, presumably, under the terms of his agreement, remunerated in part by a share of the profits earned by the business under his direction. Such an arrangement is a very frequent one, and naturally operates as an incentive to the Managing Director to endeavour to make the undertaking as successful as possible.

The Managing Director's remuneration is, of course, based upon the profit for the year 19—, and not, in addition, upon the balance brought forward from the previous year, upon which he has probably already been paid the percentage due to him; the amount now payable to the Managing Director is consequently 10 per cent. upon £18,261 10*s*., viz. £1,826 3*s*.

Destination.—This £1,826 3*s*. must be debited in the Appropriation Account as representing the portion of the profits for the year payable to the Managing Director, and if the Personal Ledger Account of the Managing Director were to be shown, this sum would be inserted therein to his credit. This Account is not, however, demanded by the terms of the question, and it is necessary for the candidate to bear in mind, when preparing the Balance Sheet, the fact that the commission is unpaid, and that, therefore, the Managing Director must be scheduled as a creditor for the amount of his commission under the heading " Sundry Creditors " (Managing Director's Commission), as was the case with the Directors' outstanding Fees dealt with above.

Item No. 36. " To appropriate £2,500 to Reserve, carrying forward the balance."

Nature of the item.—The Directors of the Company have evidently decided to retain £2,500 of the profits

made during the year permanently in the business, by means of the transfer of this amount to the pre-existing Reserve of £5,000.

This Reserve Account is obviously a general reserve, and is not represented by any specific investments effected outside the business. It is practically a specialised balance of Profit and Loss Account, and nothing more; this type of Reserve is known as one which is "invested in the business."

Destination of the item.—The £2,500 is debited to the Appropriation Account, and if the "Reserve Account" in the Ledger were shown, this £2,500 would appear as an additional credit; but, as this account is not required, the candidate must, when preparing his Balance Sheet, add £2,500 to the pre-existing Reserve (£5,000), thus raising the amount of that account to £7,500.

The Reserve Account will thus be shown in the Balance Sheet as under—

Reserve Account.	£ *s. d.*	£ *s. d.*
As per last Balance Sheet .	5,000 0 0	
Added during the year. .	2,500 0 0	
		£7,500 0 0

The Managing Director's commission and the transfer to the Reserve Account having thus been debited in the Appropriation Account, the balance of this account (£14,685 7*s.*) is carried down on the credit side. This balance remains for inclusion in the Balance Sheet, as shown in the accompanying illustration (p. 664).

The Trading, Profit and Loss, and Appropriation Accounts having thus been completed, the candidate must next turn his attention to the preparation of the Balance Sheet.

As was explained in Chapter X, the student must adopt some reasonable and recognised order in which to marshal the Assets and Liabilities appearing in any Balance Sheet prepared by him. For the purposes of the question now before us we will adopt that form of Balance Sheet in which the Assets are marshalled in the order of their "non-realisability." As explained in Chapter XVI, the basis upon which the fixed assets have been valued must be stated, together with certain other information, in the Balance Sheets of Joint Stock Companies.

Starting with the "Liabilities" side of the Balance Sheet, the item which should be placed at the head of this column is one which does not appear in the Trial Balance, and does not require to be extended into the principal money column of the Balance Sheet, viz. the "Authorised" or "Nominal" Capital of the Company.

Item No. 1.

Item No. 1 in the note at the head of the Trial Balance records the fact that the "Authorised Capital of the Company consists of 15,000 Ordinary Shares of £10 each."

This statement of fact, although it does not in any way represent the balance of an account, must be shown as a matter of information, in the Balance Sheet, on the Liabilities side as under—

	£ s. d.
Nominal Capital.	
15,000 Ordinary Shares of £10 each	150,000 0 0

The figures are entered in the "short" cash column, and are not extended into the principal column. A pair of lines are ruled beneath the item to denote that it forms no part of the additions of the figures composing the Balance Sheet.

In completing the Liabilities side of the Balance Sheet (*i. e.* the Debit side), it will be remembered that Liabilities which in the Trial Balance appear on the *Credit* side, are—in the compilation of a Balance Sheet prepared according to the general practice ruling in this country—entered on the *Debit* side. Similarly, Assets (which are *Debit* balances in the Trial Balance) appear on the right-hand, or *Credit* side, of the Balance Sheet.

Item No. 2.

Item No. 2 in the Trial Balance is as under—

	£ s. d.
"Capital issued and fully paid up, 9,000 shares of £10 each . .	90,000 0 0."

Nature of the item.—This item represents the issued Capital of the Company, *i. e.* the amount contributed, in cash or in kind, by the shareholders of the Company.

Destination.—The item must be included on the left-hand side of the Balance Sheet as a Liability. The

business having received this money from the shareholders is regarded as responsible to them for it. It must, however, be borne in mind by the student that, in reality, it is only from a book-keeping standpoint that the Capital of the Company ranks as a Liability, and that shareholders cannot claim repayment of their contributions as a matter of right, except in the case of a liquidation or a general repayment of Capital under the sanction of the Courts. They can, of course, sell their shares to other parties.

The item is included under the heading "Capital issued," the "9,000 shares of £10 each fully paid" being added as a note, and the amount (£90,000) being extended into the principal Cash column.

Item No. 23.

The next item appearing in the Trial Balance on the Credit side to be dealt with is No. 23, "*Sundry Creditors*, £21,750."

Nature of the item.—It represents the indebtedness of the Company to its creditors, whether Trade creditors or otherwise, whose accounts were outstanding on the books as on December 31, 19—.

Destination.—The item is entered in the Balance Sheet upon the Liabilities side under the heading of "Sundry Creditors." It is not, however, immediately entered in the principal Debit Cash column, but should appear in the "short" column, for the reason that there are other "Creditors," arising out of the process of closing the books, to be grouped with this item before the total is extended into the Debit column proper.

It will be remembered that a sum of £1,826 3*s*. has been debited (pursuant to footnote No. 35) in the Appropriation Section (see p. 653) as "Remuneration due to the Managing Director." This debit to the Appropriation Section involves a corresponding credit entry in the Managing Director's Personal Account, which credit entry is brought into the Balance Sheet as an addition to the Sundry Creditors. The "Managing Director's Commission, £1,826 3*s*.," is therefore also entered "short" upon the Liabilities side in the Balance Sheet under the heading of "Sundry Creditors."

It will also be remembered that £500 was debited in the Profit and Loss Account (footnote 33 attached to the

Trial Balance) as "Directors' Fees due but unpaid." The Directors are creditors for these fees, and need to be shown in the Balance Sheet among the "Sundry Creditors," as was the case with the Managing Director in respect of his remuneration. The £500 is therefore entered under the heading of "Sundry Creditors" in the "Short" column.

All the amounts due to Creditors have now been included in the Balance Sheet, and the total of the three items entered in the "short" column can consequently be added up and extended into the principal column. The total thus obtained will be found to amount to £24,076 3*s.*

Item No. 25.

Item No. 25 in the Trial Balance ("Bad Debts Reserve, £2,600") does not need considering until the candidate is constructing the Assets side of the Balance Sheet, as it is the practice to show such Reserves as deductions from the item "Sundry Debtors."

Item No. 26.

Item No. 26 in the Trial Balance ("Profit and Loss Balance, January 1, 19— £750") has already been dealt with in the Appropriation Account.

Item No. 27.

"*Reserve* . £5,000."

Nature of the item.—This amount represents the general reserve existing in the Company's books as on January 1, 19—, *i.e.* the total amount of the profits set aside and permanently retained in the business up to that date.

Destination.—The item is entered upon the debit side of the Balance Sheet under the heading "Reserve Account," with the explanation "as per last Balance Sheet" annexed to the amount (£5,000). The £5,000 is not placed in the principal debit Cash column of the Balance Sheet, but is entered "short," owing to the fact that a further sum of £2,500 has been carried to the Reserve as on December 31, which requires to be taken into account in due course.

The £2,500 addition to Reserve (note No. 36 in the Trial Balance) has already been debited to the Appropria-

tion Account, and this sum therefore requires to be added to the pre-existing Reserve of £5,000.

The £2,500 is accordingly placed under the heading of " Reserve Account " in the " short " debit column in the Balance Sheet with the explanation " added during the year," and the total of the two items (£7,500) is then extended into the principal column.

The only other item which requires insertion in the Balance Sheet on the Liabilities side is the undistributed balance of the Profit and Loss Account, viz. the balance carried down in the Appropriation section of the account, £14,685 7*s.*

This item is entered direct in the principal debit cash column of the Balance Sheet, with the explanation " Profit and Loss Account (balance) " annexed thereto.

At the annual meeting of the Company, when these accounts are presented to the shareholders, the Directors will submit proposals for the distribution of this available balance, and will ask the shareholders to confirm their proposals by vote in the usual way.

The Liabilities side of the Balance Sheet has now been completed; the total of this side amounts to £136,261 10*s.*, and the credit side, when constructed, should, of course, add up to the same figure.

Turning now to the " Assets " side of the Balance Sheet, the candidate must, by referring to the Trial Balance, carefully pick out those balances which represent Assets; it is necessary for him, at the same time, to remember that various depreciation allowances and reserves have been incorporated in the Profit and Loss Account, and that, therefore, the Trial Balance figures representing certain assets require to be adjusted, in various instances, by the amount of such reserve or depreciation allowances.

The Assets appearing in the Trial Balance are dealt with seriatim as under—

Item No. 20.

" *Land and Buildings* . *£22,250.*"

Nature of the item.—This amount represents the book value, as on January 1, 19—, of the Land and Buildings owned by the Company before providing for the depreciation written off for the year.

Destination.—The item must be entered on the Assets side of the Balance Sheet, but inasmuch as a depreciation allowance has been made in the Profit and Loss Account (see footnote 28 in the Trial Balance) it must not at once be extended into the principal column of the Balance Sheet for the full sum of £22,250. The Trial Balance figure of £22,250 is therefore entered "short," and from it is subsequently deducted the depreciation allowance for the year (£667 10*s.*) the net value of the asset, £21,582 10*s.*, being then extended into the principal column. The basis of valuation must also be stated.

Item No. 21.

"*Machinery and Plant* . £35,600."

Nature of the item.—This amount represents the book value of the Machinery and Plant as on January 1, 19—, before providing for the depreciation written off in respect of the year.

Destination.—In this case also the item must be entered "short" on the Assets side of the Balance Sheet, the relative allowance previously made in the Profit and Loss Account for depreciation of Machinery and Plant for the year (£2,136) being deducted therefrom, also, of course, in the "short" column. The difference between these two amounts, viz. £33,464, represents the estimated book value of the Machinery and Plant as on December 31, after making due allowance for depreciation, and it is this figure which is extended into the principal column of the Balance Sheet. In this case also the basis of valuation must be stated.

Item No. 24.

"*Patents* . . £5,000."

Nature of the item.—It represents the book value of the patent rights owned by the Company (*i. e.* the exclusive right to manufacture certain articles) as on January 1, 19—, before providing for the depreciation written off for the year.

Destination.—This item requires to be entered on the "Assets" side of the Balance Sheet in the "short" column; the depreciation allowance of £500 for 19—, made in accordance with footnote No. 31 on the Trial Balance, must also be placed in the "short" column immediately beneath the old book value of £5,000 and

deducted from it; the net figure thus obtained (£4,500) represents the estimated present value of the patents to the Company for Balance Sheet purposes as on December 31, and this amount is then extended into the principal column.

Item No. 15.

"*Insurance* . . £190."

Nature of the item.—It represents, presumably, money expended during the year in insuring the Company's premises against loss by fire, in insuring the Company against claims for workmen's compensation, loss through burglary or larceny, and possibly other insurances of various descriptions. A feature which characterises almost all contracts of this nature is that the insurance policies run from year to year, the premiums thereon being payable annually *in advance, i. e.* at the beginning of the year covered by the insurance.

It frequently happens that, at the date of "balancing," there remains to the credit of the Company the unexpired benefit of several months' protection under various policies of assurance, the premiums upon which have been paid in advance for a year, commencing at some date subsequent to that upon which the books were last balanced. It is therefore only equitable that the trading period under review should not be charged with any greater proportion of the premiums paid in advance than relates to the actual months which have already expired; a just proportion of the premiums so paid in advance should therefore be carried forward to be *charged against the profits of the ensuing period* which is to enjoy the benefit of the protection afforded by the unexpired portion of the policies In the example given this principle is illustrated; insurance premiums to the amount of £190 have been paid in advance of which only £100 has run off during the period covered by the accounts, the balance of £90 being, therefore, the proportion of the premiums chargeable to the following financial year. These facts have been duly taken into account in charging only £100 of the £190 to the current Profit and Loss Account, and it remains therefore to rank the remaining £90 as an Asset (or rather as a "fictitious asset") on December 31, as representing the present book value of the premiums for the proportionate periods as yet unexpired, but which are fully covered by the policies already taken out and paid for.

Destination of the £90 Insurance unexpired.—It is entered as if it were an ordinary Asset upon the "Assets" side of the Balance Sheet, being extended in the principal column. It is so treated because, as has been explained above, the succeeding financial year ranks practically as a debtor to the year under review for sundry insurance premiums paid in advance upon its behalf.

Item No. 22.

"*Sundry Debtors* . . . £52,500."

Nature of the item.—This amount represents the total of the book debts owing to the Company by its customers and others as on December 31, 19—, after all the debts which are hopelessly bad have been written off. Such debts as are considered to be "doubtful" are included in the total of £52,500, the estimated losses upon this type of debt having been duly provided for by means of a Reserve. (Note 30 at the foot of the Trial Balance.)

Destination.—The total of £52,500 is entered on the Assets side of the Balance Sheet in the "short" column owing to the fact that there is in existence a Reserve for Bad and Doubtful Debts which must be taken into account subsequently.

Item No. 25.

"*Bad Debts Provision* (*Jan.* 1, 19—) . £2,600."

Nature of this item.—This amount represents the Provision brought forward upon the books of the Company as on January 1, in order to cover the estimated bad and doubtful debts as at that date.

Footnote No. 30 annexed to the Trial Balance directs that the Provision for Bad and Doubtful Debts to be carried forward, as on December 31, is to amount to a sum equal to 5 per cent. on the total debts outstanding at that date, viz. 5 per cent. on £52,500, *i. e.* £2,625. As the pre-existing Provision already amounted to £2,600, as set forth above, the necessary addition of £25 was made to it by means of a debit entry to the current Profit and Loss Account, and the balance of "Provision for Bad and Doubtful Debts Account" thus became £2,625, as on December 31.

Destination.—This figure would appear in the relative Ledger Account as a credit balance, *i. e.* as a "fictitious" *Liability.* In preparing the Balance Sheet, however, it

is shown in accordance with the usual practice, not on the " Liability " side as a constituent balance, but on the " Assets " side as a *deduction* from the gross total of the Sundry Debtors (£52,500). A net figure (£49,875) is thus obtained which represents the estimated present value of the book debts due to the Company as on December 31, and this figure is then extended into the principal column of the Balance Sheet.

Items Nos. 34, 4 and 5.

The only other Assets remaining to be included in the Balance Sheet are the value of the " Stock of goods on hand as on December 31, 19—, £23,700 " (as mentioned in footnote No. 34), the " Cash in hand, £150 " (item No. 4), and the " Cash at Bank, £2,900 " (item No. 5).

The Stock is entered direct in the principal column on the Assets side of the Balance Sheet, a memorandum being attached indicating by what authority it has been valued (" as valued by the Company's officials "). Such an explanation is frequently added at the request of the Company's auditors.

" Balance at Bank " is entered on the Assets side in the " short " column, " Cash in hand " being entered immediately underneath it in the same column. The total of the two amounts (£3,050) is then extended into the principal column.

The total of the Liabilities brought into account on the debit or left-hand side of the Balance Sheet amounts to £136,261 10*s*., which accords with the total of the Assets now appearing on the credit or right-hand side of the statement, and having arrived at this agreement, the candidate may safely assume that his solution of the question set is probably correct.

Examination Exercise III

The examination question given below was set at a popular examination, and furnishes a good example of a third type of exercise frequently met with in higher grade book-keeping examinations—

Question.—The Postford Manufacturing Company, Ltd., was registered in 19—. The nominal Capital of the Company consisted of 40,000 5 per cent. Preference Shares of £1 each, and 10,000 Ordinary Shares of £1 each.

A MANUFACTURING COMPANY, LTD.

Dr. TRADING AND PROFIT AND LOSS ACCOUNTS for the year ended December 31, 19— Cr.

		£	s.	d.	£	s.	d.			£	s.	d.	£	s.	d.
19—								19—							
Jan. 1	To Stock on hand				32,000	0	0	Dec. 31	By Sales	136,500	0	0			
Dec. 31	,, Purchases	52,350	0	0					*Less* Returns	400	0	0			
	Less Returns..................	750	0	0									136,100	0	0
					51,600	0	0	,, 31	,, Stock on hand				23,700	0	0
,, 31	,, Manufacturing Wages.........				28,550	0	0								
,, 31	,, Manufacturing Charges				11,500	0	0								
,, 31	,, Balance carried down, being Gross Profit for the year ...				36,150	0	0								
				£	159,800	0	0					£	159,800	0	0
19—								19—							
Dec. 31	To Salaries				1,500	0	0	Dec. 31	By Balance brought down ...				36,150	0	0
,, 31	,, Trade Expenses				6,850	0	0								
,, 31	,, Rates and Taxes				250	0	0								
,, 31	,, Insurance				100	0	0								
,, 31	,, General Expenses				2,640	0	0								
,, 31	,, Discount Account (balance)				1,800	0	0								
,, 31	,, Bad Debts written off				570	0	0								
,, 31	,, Interest and Bank Charges				350	0	0								
,, 31	,, Depreciation—														
	Land and Buildings, 3% ...	667	10	0											
	Machinery and Plant, 6%	2,136	0	0											
					2,803	10	0								
,, 31	,, Patents, amount written off				500	0	0								
,, 31	,, Provision for Bad and Doubtful Debts—														
	Amount provided, Dec. 31	2,625	0	0											
	Less ditto, Jan. 1	2,600	0	0											
					25	0	0								
,, 31	,, Directors' Fees				500	0	0								
,, 31	,, Balance carried down, being Net Profit for the year				18,261	10	0								
					£36,150	0	0						£36,150	0	0
19—								19—							
Dec. 31	To Managing Director's Commission				1,826	3	0	Jan. 1	By Balance brought forward from last year	750	0	0			
,, 31	,, Transfer to Reserve Account				2,500	0	0	Dec. 31	,, Balance brought down ...	18,261	10	0			
,, 31	,, Balance carried down				14,685	7	0						19,011	10	0
					£19,011	10	0						£19,011	10	0
								19—							
								Dec. 31	By Balance brought down ...				£14,685	7	0

A Manufacturing Company, Ltd.

BALANCE SHEET, December 31, 19—

	£	s.	d.	£	s.	d.		£	s.	d.	£	s.	d.
Nominal Capital— 15,000 Ordinary Shares of £10 each	150,000	0	0				Land and Buildings at cost, less depreciation previously written off...	22,250	0	0			
Share Capital issued— 9,000 Ordinary Shares of £10 each (fully paid)				90,000	0	0	*Less* Depreciation for year 19—	667	10	0	21,582	10	0
Sundry Creditors	21,750	0	0				Machinery and Plant at cost, less depreciation previously written off ..	35,600	0	0			
Managing Director for Commission	1,826	3	0				*Less* Depreciation for year 19—	2,136	0	0	33 464	0	0
Directors' Fees	500	0	0	24,076	3	0	Patents	5,000	0	0			
Reserve Account— As per last Balance Sheet	5,000	0	0				*Less* Amount written off	500	0	0	4,500	0	0
Added during the year	2.500	0	0	7,500	0	0	Stock as valued by the Company's officials ...				23,700	0	0
Profit and Loss Account (Balance)				14,685	7	0	Sundry Debtors	52,500	0	0			
							Less Provision for Bad and Doubtful Debts	2,625	0	0	49,875		0
							Insurance paid in advance				90	0	0
							Balance at Bank	2,900	0	0			
							Cash in hand	150	0	0	3,050	0	0
				£136.261	10	0					£136,261	10	0

See Notes appended to the Balance Sheet on p. 679.

No dividend was paid for the previous year on either class of share.

The Company's books were closed and balanced, as on December 31, 19—, on which date the Stock in hand was valued at £9,050.

The balances of the Ledger Accounts were as follows—

		£	s.	d.
(*1*)	Purchases	15,345	0	0
(*2*)	Buildings	24,054	0	0
(*3*)	Fuel	485	0	0
(*4*)	Plant and Machinery	5,654	0	0
(*5*)	Boiler and Heating Plant	592	0	0
(*6*)	Repairs	472	0	0
(*7*)	Loose Tools	1,856	0	0
(*8*)	Office Expenses	362	0	0
(*9*)	Sales	37,950	0	0
(*10*)	Wages (Manufacturing)	13,671	0	0
(*11*)	Discount (debit Balance)	83	0	0
(*12*)	Provision for Bad and Doubtful Debts (as on January 1)	250	0	0
(*13*)	Salaries	1,062	0	0
(*14*)	Postages and Telegrams	116	0	0
(*15*)	Rates and Taxes	239	0	0
(*16*)	Travelling	317	0	0
(*17*)	Loan on Mortgage (charged on above premises)	8,500	0	0
(*18*)	Interest and Bank Charges	402	0	0
(*19*)	Directors' Fees	300	0	0
(*20*)	Stock on hand (January 1)	8,990	0	0
(*21*)	Sundry Creditors	10,960	0	0
(*22*)	Sundry Debtors	9,847	0	0
(*23*)	Goodwill	4,000	0	0
(*24*)	Profit and Loss Account (Credit Balance from previous year)	206	0	0
(*25*)	Preference Share Capital	17,520	0	0
(*26*)	Ordinary Share Capital	8,000	0	0
(*27*)	Unpaid Calls	50	0	0
(*28*)	Bills Payable	2,100	0	0
(*29*)	Bank Overdraft	2,721	0	0
(*30*)	Cost of New Catalogue	300	0	0
(*31*)	Cash in hand	10	0	0

Before preparing the annual accounts the following adjustments are necessary—

Provision for Bad and Doubtful Debts is to be made at the rate of 5 per cent. on the Sundry Debtors.

Provide for depreciation at the following rates—

Plant and Machinery Account	10 per cent.
Boiler and Heating Plant Account	10 per cent.
Loose Tools Account	20 per cent.

Write off one-third of the Cost of the New Catalogue, and one-half of the Repairs Account against the current year, carrying the balances of these accounts forward to next year.

Prepare Trading and Profit and Loss Accounts for the year ended December 31, 19—, and a Balance Sheet as on that date.

As regards the form of these Accounts and in particular the question of compliance with the Companies Act, 1948, see the remarks on pp. 639–40 dealing with this point as regards Examination Exercise II. These remarks equally apply here and the answer here given to Exercise III does not comply with the Companies Act.

It will be noted that in the above question, as in the case of Examination Exercise II, the candidate is required to prepare the annual accounts of a company or firm, but, in this case, no agreed Trial Balance is given to the student to work from, its place being taken by a schedule of Ledger balances which are not arranged as "debit" or "credit" balances, or classified in any way.

This latter type of exercise obviously takes a longer time to work out than the former; and, in addition to the usual work of preparing the required accounts, the candidate is compelled to use his knowledge and reasoning capacity in determining the nature and significance of each item in the schedule of Ledger balances presented to him to deal with.

When working an exercise of this character some candidates make no attempt to prepare an initial Trial Balance upon which to base the accounts, but commence at once to prepare them. The author is of opinion that this proceeding is a mistaken one, and is often the cause of confusion and serious loss of time. In cases of this sort the short cut is often the longest way round, and the average candidate will, it is thought, gain both time and confidence by preparing, as the first step, an agreed Trial Balance from the figures given him in the question.

In answering a question of this type it is necessary, therefore, to commence by preparing a Trial Balance from the Ledger balances set out above. By mentally tracing the history of each Ledger balance, and the manner in which it would originate, the candidate will arrive at the required Trial Balance as follows—

Item No. 1. "Purchases . . £15,345."

This item represents the total cost of the goods bought during the year for use in manufacturing the products dealt in by the Company. The goods bought have already been credited, in detail, to the persons by whom they were supplied, and have been entered in the Pur-

chases Book; the latter has been posted in total to the debit of the Purchases Account in the Ledger. This balance, therefore, must be entered in the *debit* column of the Trial Balance.

Item No. 2. "*Buildings* . . £24,054."

This balance represents the book value of the Company's Buildings, as on January 1, in other words, it is an Asset. An Asset can only appear on the debit side of its relative Ledger Account; this balance, therefore, must be entered in the *debit* column of the Trial Balance.

Item No. 3. "*Fuel* . . £485."

This balance represents the total cost of the fuel purchased during the year for consumption at the Company's works. The purchase price of the fuel will already have been credited in detail to the persons from whom it has been bought, and these purchases have been debited in total to the "Fuel" Account in the Ledger; this account represents the year's expenditure in this direction. The balance must consequently be entered in the *debit* column of the Trial Balance.

Item No. 4. "*Plant and Machinery* . . £5,654."

This balance represents the book value of the Plant and Machinery belonging to the Company, as on January 1. In other words, it represents an Asset owned by the undertaking. It must consequently be entered upon the *debit* side of the Trial Balance.

Item No. 5. "*Boiler and Heating Plant* . . £592."

This balance represents the book value of the Boiler and Heating Plant owned by the Company, as on January 1. For the same reasons as those which apply in the case of item No. 4, viz. the fact that the Boiler and Heating Plant are Assets, the balance must be inserted in the *debit* column of the Trial Balance.

Item No. 6. "*Repairs* . . £472."

This balance represents the total sum expended in keeping the Company's various Assets in a state of repair during the year. The cost of these repairs will have been credited, in detail, to the Ledger Accounts kept for the persons by whom they were effected (or to the Cash Account if paid for in cash), and a correspond-

ing amount will have been debited in total to the "Repairs" Account in the Ledger. The balance consequently must be included in the *debit* column of the Trial Balance.

The repairs effected during the year will, apparently, relieve subsequent years of certain expenditure in this direction, because the candidate is directed, in preparing his Profit and Loss Account, to include as a "loss" only one-half of this amount, carrying forward the remaining moiety as a "fictitious" Asset to be subsequently written off against the profits of the years immediately following.

Item No. 7. "*Loose Tools* . . £1,856."

This balance represents the book value of the Loose Tools owned by the Company, as on January 1. These tools will either have been bought for cash (in which case Cash will have been credited and "Tools" Account will have been debited) or on credit (in which case the vendors' accounts will have been credited and the "Tools" Account debited). The item represents property owned by the firm, *i. e.* an Asset, and the balance is consequently included in the *debit* column of the Trial Balance.

Item No. 8. "*Office Expenses* . . £362."

This balance represents the total sum expended in the direction of "Office Expenses" during the year. In recording these Expenses "Cash" will have been credited, and "Office Expenses" debited. The balance therefore is a debit one, and requires to be included in the *debit* column of the Trial Balance.

Item No. 9. "*Sales* . . £37,950."

When a sale upon credit takes place, it will be remembered that an entry is at once made in the "Sales Book," which is subsequently posted in detail to the debit of the purchaser's account in the Ledger. It will also be remembered that, at the date of balancing, the Sales Book is added up, and the total, representing the total value of the merchandise which has "gone out" from the concern during the period, is posted to the credit of the "Sales Account."

Similarly, it will be remembered that "Cash Sales" are debited in the Cash Book (the money having "come in"), and are credited in weekly or monthly totals to the

"Sales Account," to be followed later by the total of the "Credit Sales."

Consequently this balance is a credit one, and requires to be inserted in the *credit* column of the Trial Balance.

Item No. 10. "*Wages* (*Manufacturing*) . £13,671."

This balance represents the total sum paid for wages during the year to the Company's workmen. The cash paid out weekly in wages would be duly credited in the Cash Book, as and when paid, and posted to the debit of the "Wages Account" in the Ledger, in which account the total mentioned above has gradually accumulated. The balance must consequently be placed in the *debit* column of the Trial Balance.

Item No. 11. "*Discount* (*Debit Balance*) . . £83."

Here the candidate is told that this balance is a debit one; needless to say, therefore, it must be included on the *debit* side of the Trial Balance.

It will be remembered that a multiplicity of items representing discount allowed and discount received are gradually accumulated in the debit and credit "discount" columns of the Cash Book, and that the totals of these columns are posted periodically to the debit and credit, respectively, of the "Discount Account" in the Ledger. Other items of discount may also be posted to the Discount Account in the Ledger from the Journal, or from other books of original entry. Between the debit and credit totals thus gradually built up in the Discount Account there is naturally a preponderance of either debit or credit entries. In this way a debit or a credit balance results. In the case of the item mentioned above the discounts allowed (losses) have obviously exceeded the discounts received (profits) by £83, and the final debit balance thus comes into being, and must be entered as a *debit* in the Trial Balance.

Item No. 12. "*Reserve for Bad and Doubtful Debts* (*as on January* 1) . . £250."

This Reserve will have been created in past years by one or more transfers from the Profit and Loss Account, the latter account having been debited with the sums so set aside as if they had represented actually ascertained Losses, and the "Reserve for Bad Debts Account" having been credited with the like sums. The item set

out above, therefore, represents an amount of Profits retained in hand for the purpose of covering a certain special type of loss (*i. e.* anticipated Bad Debts); it is thus a "fictitious" Liability.

The balance of the Reserve Account must consequently be included in the Trial Balance on the *credit* side, that being the side upon which the balance, as a liability, appears in the Ledger.

Item No. 13. "*Salaries* . . . £1,062."
,, *14.* "*Postages and Telegrams* . £116."
,, *15.* "*Rates and Taxes* . . £239."
,, *16.* "*Travelling* . . . £317."

The above four items are similar in character and may be conveniently explained on a common basis.

They all represent the total sums expended during the year for business expenses under their respective headings.

The salaries of the clerks and other employees, the payments made for postages, telegrams, local rates, taxes, and travelling expenses have all been disbursed by the Cashier from time to time; upon their disbursement the Cash Account, Bank Account, or the Petty Cash Account, as the case may be, has been credited in detail, and the appropriate "Expense" Account in the Ledger has been debited. The detailed debits to these accounts have steadily accumulated throughout the year until, at its close, they amount to the sums respectively set out above.

All these items represent debit balances, and must be included in the *debit* column of the Trial Balance.

Item No. 17. "*Loan on Mortgage* (*charged on above premises*) . . £8,500."

This balance represents the Liability of the Company to the person from whom an amount of £8,500 has been borrowed. The fact that a charge has been given upon the Company's premises to secure the repayment of the amount in case of default must not be allowed to obscure, in the candidate's mind, the simple issue in regard to this item, viz. that it is intended to record the fact that the Company has borrowed the sum of money specified, and that, therefore, it is under an obligation to repay £8,500 at some future date.

When the loan was originally contracted the money

received will have been duly debited in the Cash Book, and a like sum credited to the lender's Personal Account in the Ledger; the balance set out in the list of Balances given above represents this credit item, and the amount must, therefore, be included in the *credit* column of the Trial Balance as a Liability.

Item No. 18. "Interest and Bank Charges . £402."
" 19. "Directors' Fees . . . £300."

These balances represent, respectively, the sums disbursed by the Company for "Interest and Bank Charges" and "Directors' Fees" during the year; both items represent "Losses," and are consequently debit balances, and must be included in the *debit* column of the Trial Balance.

Item No. 18 represents the total paid in the shape of interest due on money borrowed, together with the bank charges incurred during the year; these payments will have been duly credited in detail in the Cash Book, as and when made, and will have been debited to the "Interest and Bank Charges" Account in the Ledger. If the item had been designated simply as "Interest" it might conceivably have been either a debit or a credit balance, *i.e.* Interest paid *by* the Company on money borrowed by it or Interest paid *to* the Company on money lent by it; the inclusion of the additional item of "Bank Charges," however, fixes the total balance as a debit one, *i. e.* a "Loss," since bankers do not pay "Bank charges" to their customers, but receive them from them.

Item No. 19 represents the total sum disbursed to the directors by way of remuneration for their services during the year. It is consequently a "Loss" and therefore a debit balance.

Item No. 20. "Stock on hand, January 1, £8,990."

This item represents the value of the goods in hand at the commencement of the financial period under review; it therefore represents an Asset, and is consequently a debit balance. It will be remembered that, at the end of the preceding trading period, *i.e.* December 31, prior, an entry must have been passed crediting the Trading (or Manufacturing) Account with the closing Stock then on hand, and debiting the "Stock" Account with the same sum as representing the opening Stock carried forward to the succeeding period, *i. e.* for the year 19—.

It is the latter entry which created the present debit balance.

The item, therefore, must be included in the *debit* column of the Trial Balance.

The fact that this Asset is dealt with in the Trading Account and not in the Balance Sheet does not affect the necessity of including it as a debit balance in the Trial Balance which the student is preparing.

Item No. 21. " Sundry Creditors . . £10,960."

This sum represents the total amount owing by the Company to the trade and other creditors, as on December 31. It is thus a Liability, and consequently requires to be included in the *credit* column of the Trial Balance.

Item No. 22. " Sundry Debtors . . £9,847."

This item represents the total amount owing to the Company by its trade and other debtors, as on December 31. It is thus an Asset, and requires to be included in the *debit* column of the Trial Balance.

Item No. 23. " Goodwill . . £4,000."

This item represents the cost to the Company of the Asset known as " Goodwill." The cost of this Asset will have been credited in the Cash Account, if paid for in cash, or to the Personal Account of the vendor if purchased from him upon credit, either separately or in company with other Assets upon the transfer of the business to the Company, and a corresponding sum will have been debited to the " Goodwill " Account in the Ledger, from whence it has been extracted in the Trial Balance.

The item, therefore, requires to be placed in the *debit* column of the Trial Balance as an Asset.

Item No. 24. " Profit and Loss Account (Credit Balance from previous year) . . £206."

The student is here informed that this Balance is a " Credit " one, and it must consequently be placed by him in the *credit* column of the Trial Balance.

The item represents the undistributed balance of profit made prior to January 1, 19—, and carried forward, as on that date, to the accounts for the year under review. If the balance had been a debit one it would have represented the balance of the net loss brought forward. Without the addition of a note indicating upon which

side of the Ledger the balance appeared the item would have been ambiguous.

Item No. 25. " Preference Share Capital . £17,520."
,, 26. " Ordinary Share Capital . £8,000."

These items are similar in character, although the classes of capital to which they relate differ in their respective priorities among themselves.

Both the items represent the total sums received, in cash or in kind, from the shareholders of the Company; whether the shares have been paid for in money or in kind, the Assets acquired by the issue of the Capital will have been debited in the Company's books to the various Ledger Accounts opened for each particular type of Asset, and the corresponding credit entries will have been made in one or other of the two " Capital Accounts" (" Preference " or " Ordinary ") here mentioned.

It will be remembered that when shares are issued for cash the " Share Capital Account " is credited and the " Application and Allotment," " First Call," or other accounts representing the liability of the allottees to the Company are debited. It is the " Share Capital Accounts " that the items in question represent. The Company's shareholders, as a body, are, for book-keeping purposes, regarded as creditors for the amount of the Capital they have subscribed in the same manner as the partners in a firm are treated as quasi-creditors for the amounts of their respective capitals.

Both balances, therefore, require to be placed in the *credit* column of the Trial Balance.

Item No. 27. " Unpaid Calls . . £50."

It will be remembered that, on a call being made by a Company upon its shareholders, the " Share Capital Account " is immediately credited with the total amount receivable by the Company under the terms of the call, irrespective of whether the money has actually come in or not, and that a " Call Account " (representing the personal indebtedness of the shareholders) is debited with the like total. As and when the calls are actually received they are credited to this " Call Account," the debit balance of which consequently steadily falls, until, when all the calls have come in, the two sides of the account adjust themselves and the " balance " disappears altogether.

Apparently, in the case under review, all the calls

have duly come in with the exception of £50, which is still outstanding. This £50 consequently appears in the Ledger as a debit balance upon the "Call Account," and represents the amount still due to the Company from one or more shareholders; and, as such is the case, the balance requires to be inserted in the *debit* column of the Trial Balance as representing "Sundry Debtors for unpaid Calls."

Item No. 28. "Bills Payable . . £2,100."

This item represents the total outstanding liability of the Company, as on December 31, on the bills drawn on and "accepted" by it, *i. e.* upon bills which, having been drawn upon the Company, have been duly accepted, but have not yet matured for payment.

It will be remembered that upon the acceptance of a bill, the acceptor immediately credits his "Bills Payable" Account with its face value, and debits the Personal Ledger Account of the person who draws the bill upon him. This balance of £2,100, therefore, represents the balance of the Company's "Bills Payable Account"; it consequently requires to be placed in the *credit* column of the Trial Balance as representing a Liability which, in due course, the Company will have to meet.

Item No. 29. "Bank Overdraft . . £2,721."

This item represents a Liability of the Company to its Bankers, and requires to be placed in the credit column of the Trial Balance. It will be remembered that when a company possesses a balance in its favour at its bankers, such balance appears to the debit in its Cash Book; on the other hand, when, as has occurred in this case, the cheques drawn (credit entries in the Cash Book) exceed the debit balance appearing in the "Bank" column in that book, the balance of necessity appears on the other side, and the Cash Book shows a credit balance, representing the Company's liability to the Bank. In other words the Company's account with its Bankers is "over-drawn."

The item consequently must be entered in the *credit* column of the Trial Balance as a Liability.

Item No. 30. "Cost of New Catalogue . £300."

This balance represents the total sum expended, *e. g.* for printing, paper, cost of dies and letterpress, in the

preparation of a new catalogue setting forth the particulars and prices of the articles manufactured by the Company for sale. Such catalogues are usually supplied *gratis* to customers and prospective buyers. and the above balance, presumably, includes the whole of the cost of preparing a new edition consisting of a given number of copies.

All moneys disbursed in this connection will have been credited in detail in the Cash Book, as and when disbursed and debited in due course to the " Cost of New Catalogue " Account in the Ledger. Any goods supplied on credit for the same purpose will have been credited in detail to the Personal Accounts of the suppliers and debited to the " Cost of New Catalogue " Account in the Ledger.

The balance is consequently a debit one, and represents an " Expense " incurred, and must therefore be placed on the *debit* side of the Trial Balance.

In cases where a new edition of a catalogue entails heavy expenditure, and the number of copies printed will meet the needs of several years, it is customary to spread the expenditure over future years in the same manner in which " Preliminary Expenses " are dealt with. In the case under review it is stated that one-third of the cost of the catalogue is to be written off against the profits of the current year, and that the balance is to be carried forward; this instance is thus an exemplification of a common practice. Consequently, in preparing the Profit and Loss Account £100 only is there debited as an " Expense," and when preparing the Balance Sheet, the remainder (£200) is scheduled as a " fictitious " Asset.

Item No. 31. " Cash in hand . . £10."

This item represents the balance of cash in hand (probably in the hands of the petty cashier) as on December 31; it is therefore an Asset, and requires to be included in the *debit* column of the Trial Balance.

The Trial Balance arising out of the foregoing items is now completed and appears as follows (see p. 676).

Having thus arrived at an agreed Trial Balance, as above, the candidate will next proceed to prepare the Trading and Profit and Loss Accounts, and the Balance Sheet, as required by the terms of the question. ., *e.*

As these accounts are practically identical in prii does and in method of preparation, with those alread from

THE POSTFORD MANUFACTURING COMPANY, LTD.

TRIAL BALANCE, December 31, 19—

	Dr.			Cr.		
	£	s.	d.	£	s.	d.
(1) Purchases Account	15,345	0	0			
(2) Buildings Account	24,054	0	0			
(3) Fuel Account	485	0	0			
(4) Plant and Machinery Account	5,654	0	0			
(5) Boiler and Heating Plant Account	592	0	0			
(6) Repairs	472	0	0			
(7) Loose Tools Account	1,856	0	0			
(8) Office Expenses	362	0	0			
(9) Sales Account				37,950	0	0
(10) Wages (Manufacturing)	13,671	0	0			
(11) Discount Account	83	0	0			
(12) Reserve for Bad and Doubtful Debts (as on January 1)				250	0	0
(13) Salaries	1,062	0	0			
(14) Postages and Telegrams	116	0	0			
(15) Rates and Taxes	239	0	0			
(16) Travelling	317	0	0			
(17) Loan on Mortgage (charged on above premises)				8,500	0	0
(18) Interest and Bank Charges	402	0	0			
(19) Directors' Fees	300	0	0			
(20) Stock on hand (January 1)	8,990	0	0			
(21) Sundry Creditors				10,960	0	0
(22) Sundry Debtors	9,847	0	0			
(23) Goodwill	4,000	0	0			
(24) Profit and Loss Account (Balance from previous year)				206	0	0
(25) Preference Share Capital Account				17,520	0	0
(26) Ordinary Share Capital Account				8,000	0	0
(27) Unpaid Calls Account	50	0	0			
(28) Bills Payable				2,100	0	0
(29) Bank Overdraft				2,721	0	0
(30) Cost of New Catalogue	300	0	0			
(31) Cash in hand	10	0	0			
	£88,207	0	0	£88,207	0	0

with in "Examination Exercise II," appearing earlier in this chapter, it is not necessary to deal in detail with the preparation of the accounts which the student will find appended.

The following items are, however, somewhat different in character from any of those previously dealt with, and it may therefore be profitable to consider them briefly.

Item No. 19. "Directors' Fees. . . £300."

These fees must appear in the Profit and Loss Account as an ordinary business expense, as presumably the -vices of the Directors are essential to the successful Th..nt of the business, the profits of which must, for prin-e, bear the cost of their remuneration.

Item No. 24. "*Profit and Loss Account* (*Credit Balance from previous year*) . . £206."

This item is not brought into credit in the Profit and Loss Account proper; it is entered in the second section (usually called the "Appropriation Account" or "Section") of the Profit and Loss Account; in this section is also entered the Net Profit (£4,053 17*s.*) shown for the current year, according to the Profit and Loss Account.

The combined figure of Profit arrived at by adding together these two items, viz. £4,259 17*s.*, is shown in the Balance Sheet as a separate item, and represents the amount of profit available for distribution. As these accounts relate to a Limited Company this balance of undivided profit must on no account be merged with the Share Capital figures, but each item must be kept separate in the Balance Sheet. In this respect companies differ from private partnerships in submitting their accounts.

Item No. 25. "*Preference Share Capital* . £17,520."
„ *26.* "*Ordinary* „ „ . £8,000."
„ *27.* "*Unpaid Calls* . . £50."

The two former of these balances (Items Nos. 25 and 26) are credit balances, and require to be entered on the Liabilities side of the Balance Sheet under the heading of "Share Capital Issued." They must, however, be entered "short," and a combined total must then be made of them, again in the "short" column. The "Unpaid Calls Account" (£50) is a debit balance, and represents a debt due to the Company from its shareholders, but the item must not be entered on the Assets side of the Balance Sheet. It must be entered "short" under the capital total, as arrived at above, on the Liabilities side of the Balance Sheet, as a *deduction* from the total of the Issued Capital (£25,520), the net figure thus obtained (£25,470) being extended into the principal cash column on the Liabilities side of the Balance Sheet. This process is followed in order that the Capital actually received by the Company may be clearly shown.

The unpaid calls should be deducted from the particular class of share on which they are outstanding (*i. e.* "Preference," or "Ordinary"), but as the question does not give this information, they must be deducted from

the total share Capital as shown in the Balance Sheet on p. 679.

The "Nominal Capital" of the Company, viz. 40,000 Preference Shares of £1 each and 10,000 Ordinary Shares of similar denomination (£50,000 in all), must be shown in the Balance Sheet on the Liabilities side above all the other items, the details being inserted as a *memorandum* merely, and not as a part of the financial statement itself. The total must be entered in the "short" column and separated from all the other items by means of a double ruling placed underneath it in order that it may be clearly seen that this "Nominal Capital" has not of necessity been issued or paid up. In preparing the Balance Sheet which appears on p. 679, the assets have been marshalled in the order of their unrealisability. As explained in Chapter X, the assets of most commercial undertakings are set out in this order.

Examination Exercise IV

The following examination question has never been set. It is intended to illustrate a set of published Accounts complying with the Companies Act, 1948, so far as the provisions of the Act are applicable. It is assumed that the particulars given (the balances standing on the Ledger Accounts, etc.) are all exactly as in Exercise II (pp. 637–8), with the addition of certain necessary additional information, and Accounts are called for as before.

The candidate will realise that the Act does not require the items in the Profit and Loss Account or the Balance Sheet to be in any particular *order*. The order actually given in the answer following is in accordance with modern ideas, and is considered reasonable by the writer, but in some respects there is room for a different opinion, and the reader should realise that there is nothing "cast iron" about the order here given.

The next point to emphasise is that while the Act lays down that certain information *must* be given, this is merely a minimum; there is nothing to prevent the directors giving additional information beyond this bare minimum should they wish to do so, as in many cases they certainly will. The answer here given does, in certain respects, give particulars beyond the statutory minimum, and, in view of this, notes are added for the reader's benefit to make clear what part of the information is statutory and what is not.

We will deal first with the *Profit and Loss Account*. The Act does not require, and it would be exceedingly unusual in practice, that all the information set out on page 663 should be published.

The minimum requirements, in this rather simple case, are the disclosure of the following :—

(1) The amount charged for depreciation.
(2) The amount transferred to reserve.
(3) The "aggregate amount of the directors' emoluments."

As regards (1). One total, for the whole depreciation charged for the year on all fixed assets, is sufficient. We will assume, however, that the directors wish to show separately the amounts respectively written off from the land and buildings, the machinery and plant, and the patents.

Item (2) needs no comment.

As regards item (3), the directors' emoluments will include both the directors' fees (£500) and the managing director's "remuneration" (given as 10 per cent. of the profit and calculated to amount to £1,826 3*s*.). The total of these two items is therefore £2,326 3*s*., and this figure *must* be shown. It is also necessary (S. 196 (2) (*b*)) to distinguish between "emoluments in respect of services as a director" and "other emoluments." The managing director's commission is certainly payable to him for his services as manager, not as a director, and accordingly comes under the heading of "other emoluments." Accordingly the directors' fees and the commission must be disclosed separately: in the present instance this can be done very conveniently by showing the figures in the body of the account as subdivisions of the total, but if preferred the information can be given in the form of a note.

We will now make an assumption, not referred to in Exercise II as set, that the directors have decided to recommend to the shareholders the payment of a dividend of 10 per cent. This proposed appropriation must be shown, but the wording used must be such as to make it clear that it is only a proposal, not a decision (which the directors would not in law have the power to make), nor an accomplished fact.

The Profit and Loss Account as published will commence with a balance of profit, described by some such words as "Trading Profit for the year," the amount of this balance being the figure of net profit as shown on page 663, £18,261 10*s*. increased by the amounts which were previously deducted before arriving at this figure, but which, since they are to be separately disclosed, cannot now be so deducted. These amounts are : —

	£	*s*.	*d*.
Depreciation	2,803	10	0
Patents written off . . .	500	0	0
Directors' Fees	500	0	0
	£3,803	10	0

The "Trading Profit" as shown will therefore be the total of £18,261 10*s*. and £3,803 10*s*., or £22,065.

We will now turn to the *Balance Sheet.*

As regards the capital and liabilities, the details as set out on p. 664 are already sufficient to comply with the Act : in fact, rather more than sufficient, since the subdivision of the creditors

is not required. It is fairly common for "trade creditors" (creditors for goods) to be distinguished from expenses accrued (under which in this case would be included the unpaid directors' fees and managing director's commission), but, since all these are normal current liabilities, due for payment in the near future, the subdivision gives no useful information, and is not strictly necessary. On the other hand, the debiting in the Profit and Loss Account of the proposed dividend necessitates the same figure appearing on the liabilities side of the Balance Sheet: it must be shown separately, being an item of a distinct nature which cannot properly be grouped with anything else.

Turning now to the assets side, there are two respects in which the manner of setting out the details on p. 664 fail to comply

A. MANUFACTURING

Dr. **(STATUTORY) PROFIT AND LOSS ACCOUNT**

Previous year (E). £		£ s. d.	£ s. d.
	To Directors' Fees (A)	500 0 0	
1,651	„ Managing Directors' Commission	1,826 3 0	
			2,326 3 0
2,810	„ Depreciation of Land, Buildings, Machinery and Plant (B)		2,803 10 0
500	„ Amount written off Patents		500 0 0
10,359	„ Balance carried down		16,435 7 0
£15,320			£22,065 0 0
2,000	To Transfer to General Reserve		2,500 0 0
8,000	„ Proposed Dividend of 10% for the year (C)		9,000 0 0
750	„ Balance carried forward (D)		5,685 7 0
£10,750			£17,185 7 0

Notes.—(A) The directors' fees and the commission must be disclosed separately. "Directors' Remuneration £2,326 3s. 0d." would not be sufficient.

(B) There is no obligation to disclose separately the depreciation of the land and buildings on the one hand and the machinery and plant on the other.

(C) In practice the dividend would be shown "less tax," but income tax is ignored in the question as set, so this cannot be done.

with the Act, the first being that fixed assets are not distinguished from current assets, and the second that the cost of the fixed assets is not shown. As regards the current assets themselves, the information given is sufficient except for the failure to distinguish which they are: the student who has carefully read so far will, of course, know this, but in order to comply with the Act, the information must be stated specifically. We will assume, as regards the fixed assets, that the figures of original cost can be ascertained "without unreasonable expense or delay," and that they are—Land and Buildings £27,500, Machinery and Plant £78,000 and Patents £9,000.

The Profit and Loss Account, in a form complying with the Act, might now be as shown below.

COMPANY LIMITED

for the year ended December 31, 19— Cr.

Previous year (E). £			£ s. d.
15,320	By Trading Profit for the year		22,065 0 0
£15,320			£22,065 0 0
391	By Balance brought forward from last year	750 0 0	
10,359	„ Balance brought down	16,435 7 0	
			17,185 7 0
£10,750			£17,185 7 0

(D) Alternative forms of wording sometimes met with are "Balance as per Balance Sheet" or "Balance carried to Balance Sheet." With all deference to other members of the profession, the authors consider this last variant open to objection.

(E) Comparative figures for the previous year (obligatory under the Act after 1st July, 1949) have been assumed.

(F) In practice shillings and pence are practically never shown in published accounts.

CHAPTER XXVII

THE BOOK-KEEPER'S COMPENDIUM

Abstract Statement = Abs. Sta.

Accommodation Bill.—A bill drawn by one party, accepted by another, and sometimes endorsed by a third party, without any real transaction occurring between them. Such a bill is designed solely for the purpose of being discounted by one of the parties to it for the purpose of providing him with ready money. Accommodation Bills are naturally regarded with disfavour by bankers, and would be discriminated against in a batch of bills presented for discount if their nature were apparent.

Account.—A narrative of financial or commercial transactions, showing their effect. "*Ledger Accounts*" are the various sections of a Ledger, showing, in concise form, the trader's dealings with persons, in things, or in regard to profits or losses, and their effect.

Account Current.—A copy of a Ledger Account kept by a trader for any particular person, rendered by the trader to the person with whom he has dealt, or *vice versa*, at periodical intervals, *e. g.* quarterly, half-yearly, or yearly. A Current Account between merchants frequently bears interest, the method of calculating which is explained on p. 249. In banking, a *Current Account* is one kept by a banker for a customer, the balance of which, or any part of it, is repayable on demand. It differs from a "*Deposit Account*," the balance of which is only repayable after a stated period of notice of withdrawal (frequently 7 days), although bankers sometimes waive this notice. Interest is allowed on Deposit Accounts but not on Current Accounts. An **Open Account Current** is one the balance of which has not been agreed upon between the parties. An **Account Stated** is one the balance of which has been agreed upon between the parties to it. **Account Rendered** is an expression used when the unpaid balance of an account set forth in detail in a previous statement that has been sent to the customer is brought forward on a statement of later date, *e. g.* "To account rendered, £35."

Account Days (or Settlement Days).—Certain days fixed at periodical intervals by the Committee of the Stock Exchange for the adjustment of bargains entered into by members of the Stock Exchange. Two "Account Days" are fixed to occur in each calendar month for the settlement of bargains in general securities —one occurring about the middle of the month and the other towards its conclusion. The settlement for Consols, Indian Government Stocks and Municipal Corporation Stocks is now for cash.

Accountant.—A person skilled in the art of recording financial

transactions, and showing their result. A *Professional Accountant* is one who, as a person skilled in accounts, undertakes to advise as regards systems of book-keeping, and to carry them out on behalf of his clients. Owing to the fact that his calling makes him conversant with accounts in all their varying relations, a Professional Accountant is usually employed in matters which are not, strictly speaking, accounts pure and simple, but which are closely related thereto, *e. g.* the auditing of accounts kept by others, the winding-up of insolvent estates, investigations and inquiries generally of an accounting nature. The two principal bodies of Professional Accountants in England are the Institute of Chartered Accountants in England and Wales (members of which body are styled Chartered Accountants) and the Society of Incorporated Accountants and Auditors (members of which are styled Incorporated Accountants). Three "Chartered" bodies of Accountants exist in Scotland, and one in Ireland; members of these bodies are styled Chartered Accountants.

Act of Bankruptcy.—An act falling within a prescribed class of acts done, or suffered to be done, by a debtor, upon which an English court of law will make a Receiving order against the debtor, a condition of insolvency being presumable from its occurrence. (For details, see p. 450.) The levying of an execution against a debtor, and his suspending payment of his debts are typical "Acts of Bankruptcy."

Administration, Letters of.—If a person dies without leaving a valid will, someone (usually a relative chosen because of kinship with the deceased, or, failing a relative, a creditor) is appointed by the High Court of Justice (Probate Division) to "administer" (*i. e.* realise and distribute) the deceased's estate according to the manner prescribed by law. This includes payment of the deceased's debts out of the proceeds of his property, and distribution of the remainder among the persons entitled to it. The grant of the right to "administer" given under the seal of the Court is known as the "*Letters of Administration,*" and forms the document from which an "administrator" derives his right to deal with the deceased's property. If a person dies leaving a will in which no executors are named, a relative or other person may be appointed by the Court as "administrator" to carry out the directions of the will (*Administrator cum testamento annexo*) and in many other cases where there is a hiatus in the winding up of a deceased's estate an administrator can be appointed. An administrator must give security, and cannot act until Letters of Administration have been granted to him; his position, therefore, differs from that of an executor under a will, who need not give security, and can act immediately upon death of the testator (though he cannot prove his right to act until he has obtained a grant of probate of the will from the Court).

Advice.—A communication containing the information that a particular transaction has taken place, or is about to take place. A written communication advising an act or transaction is sometimes termed an "**advice note,**" *e. g.* an advice note setting out the details of goods about to be shipped.

Affidavit.—A statement made in writing, and upon oath, before a Commissioner legally appointed to administer oaths. A person knowingly swearing an untruth in an affidavit is guilty of the crime of perjury. *Statutory declarations* are written state-

ments solemnly and sincerely declared by the maker to be true before a functionary authorised to receive such declarations; the consequences of making false statutory declarations are the same, in point of law, as those of falsely swearing an Affidavit.

Agent.—A person appointed by another person (the "principal") to perform specified acts on the principal's behalf. By the acts of an Agent performed within the scope of the authority given him, the principal is as much bound as if he had done them himself, and they are ordinarily as valid as acts personally performed by him. An agent may be appointed to act generally for his principal, when he is known as a *general agent*, or to act in a specially defined capacity, when he is known as a *special agent*. Agents are frequently appointed by a document termed a "Power of Attorney." But the fact of agency may be inferred from the conduct of the parties, without any formal act appointing the agent. An agent stands in a fiduciary relationship to his principal.

Agreement.—In law, a contract or bargain between parties. Agreements may be made (1) verbally, (2) in writing "under hand" (*i. e.* signed by the parties thereto), (3) in writing "under seal" (*i. e.* signed and sealed by the parties thereto.) The existence of an agreement may even be inferred without a writing solely from the conduct of the parties. Many forms of contract or Agreement require to be embodied in a written document. An Agreement "under seal" is of higher legal standing than an Agreement "under hand." A promise made in a deed is binding upon the person who makes it without consideration, but in a *simple* contract, *i. e.* an agreement under hand, there must be consideration, *i. e.* there must be some valuable return to be made by the person to whom the promise is made.

Amalgamation.—This word is used commercially in relation with companies to express the combination of two or more independent concerns into one undertaking.

Amortization.—This term implies in book-keeping the gradual writing off of a balance, or of any particular class of expenditure. It is used in relation to expenditure rather than to tangible assets —the term "depreciation" being employed in regard to the latter with an almost identical meaning. *Examples.*—"Amortization of Capital Expenditure," "Depreciation of Plant and Machinery."

Annuity.—A payment made yearly. "**Perpetual**" Annuities are those which continue to be paid yearly for an indefinite period. Annuities "**for fixed terms**" are those payable yearly for a stated number of years. "**Life**" Annuities are those which are payable during the life of the annuitant. The Government and the leading life assurance offices will grant to any person an Annuity for the remainder of his or her life upon the payment of a fixed capital sum, based upon the amount of the Annuity, and the age at which it is granted, or at which it is to commence to be paid. This forms a convenient mode of financial provision in the case of elderly persons possessed of a moderate capital sum, and without other persons dependent upon them—a higher rate of income being obtainable than would be possible from investment in Stocks (an advantage which is natural seeing that no capital is ever returned); the annuitant, moreover, is relieved from anxiety as to his investments. "**Deferred**"

Annuities are Annuities payable from a stated *future* date until death occurs—the purchase money being paid from the present time until the commencement of the Annuity, either in a lump sum, or in periodical instalments. The purchase of a deferred Annuity to commence at (say) age sixty by quarterly payments from now until that date is a convenient way for a young man or woman to make provision for old age with a minimum of inconvenience as regards payments.

Apportionment.—A division into parts; the term is employed in law and accountancy to indicate the division, in the case of a deceased person's estate, of the income received by his executors into "income accrued, due prior to the date of death" (which is part of the estate capital), and "income accrued, due after the date of death" (which forms part of the "income" of the estate). To allow of this being done, a special Act of Parliament, known as the *Apportionment Act*, 1870, was passed, which made all such income accrue due "from day to day." Prior to the passing of the above Act, such Apportionment was not possible in a legal sense.

Appreciation.—Increase in value—the converse of "depreciation." The term is usually employed to indicate an increase in the capital value of an asset; *e.g.* the increase in the market value of Stock Exchange securities due to the success of the companies issuing them, resulting in the declaration of increased dividends; or, in the case of Government Stocks, to general trade depression and uncertain financial outlook. The profit shown by the Appreciation of assets should not, in the case of a joint stock company, be divided among the shareholders until the assets have been sold, and the profit actually realised, and even then it would be wise in most cases to place the profit to Reserve.

Arbitrage.—A term employed in financial circles to indicate the practice (frequently adopted) of remitting money from one place to another in an indirect or circuitous manner instead of remitting it direct. It is frequently possible to remit money in this indirect manner at a fractionally cheaper cost than that of a direct remittance; *e.g.* a banker wishing to remit money by T.T. from London to Berlin may find it cheaper to remit the money from London to New York, and to have it remitted thence to Berlin direct, than it would be to purchase in London a direct telegraphic transfer upon Berlin. The term is also employed in Stock Exchange circles to indicate the purchase of certain internationally quoted securities upon one Stock Exchange, and their simultaneous sale, at a fractional profit, upon another Stock Exchange; *e.g.* the purchase in Paris of French Rentes, and their immediate sale in London. The quick profit is possible owing to a fractional difference at a particular time in the quotations of the security on the Paris Bourse and the London Stock Exchange. By the operations of "**arbitrageurs**" the prices of drafts, telegraphic transfers, cable transfers, and other forms of international remittance, as well as the quoted prices of securities on different Exchanges, are levelled up. The telegraph, of course, plays an important part in all such transactions, which, indeed, without such facilities would hardly exist.

Arbitration.—The reference, by the parties to a dispute, of the matter at issue to a third party (termed an **Arbitrator**) for decision by him, instead of by a Court of law. The settlement of com-

mercial disputes by Arbitration is growing in favour. The arbitrator can be a business man acceptable to both parties, and the matter may be concluded expeditiously and without the heavy expense involved in litigation. Professional accountants are very frequently appointed as arbitrators. Sometimes each party to the dispute nominates an arbitrator, and the arbitrators then appointed select a third party to act with them in case of their differing; such a third party is termed an "**Umpire.**" The decision arrived at by arbitrators is termed their **Award.** If the submission to arbitrators has been made a rule of Court, the award of the arbitrators may be enforced, if necessary; if not, it may still be disputed in the Courts.

Arrangement, Deed of.—A document setting out details of an agreement arrived at between a debtor and his creditors. The chief object of such an Agreement is the avoidance of the publicity attached to bankruptcy proceedings (see Chap. XIX, p. 456).

Articles of Association.—The regulations governing the internal management of a company, and prescribing the way in which its chief officials are to perform their functions. A company can adopt its own special Articles of Association, and can alter them as it desires; if, however, it has not elected to have its own form of Articles, a series of regulations annexed to the Companies Acts of 1929 and 1948, known as "Table A," apply to it, and will govern its internal working. A company can alter any Article of Table A by following the procedure laid down in the Act of 1948 for the alteration of Articles, just as it can alter any of its Special Articles, if such have been framed and adopted in place of Table A.

A/S = Account Sales.

Assets.—Property of every description. Formerly the word was restricted in its commercial meaning, but is now broadly applied to all property available for the discharge of liabilities which can be converted into money or money's worth.

Assignment.—The transfer of property from one person to another—the latter party being termed the "**Assignee.**"

Attorney.—A person appointed by another person (the principal) to perform acts on his behalf; the word has the same signification as "agent."

Attorney, Power of.—A legal document appointing any person to be the Attorney for another person, either generally, or for the performance of some matter or matters specified in the document.

Audit.—The verification of accounts by an independent person. Private firms usually submit their books to Audit by professional accountants. In the case of all joint stock companies, an Audit is obligatory. Most public bodies and municipal corporations are also compelled to appoint auditors. The auditor of a joint stock company, incorporated under the *Companies Acts*, must (except in the case of an exempt private company) be a member of a body of accountants established in the United Kingdom and recognised by the Board of Trade. His rights and duties are laid down by SS. 159 to 162 of the *Companies Act*, 1948, and his report must deal specifically with the matters set out in the Ninth Schedule to that Act. These vary according to the circumstances of the particular company, *e.g.* whether or not it has subsidiaries or whether some or all of the subsidiaries have different auditors.

Averages.—In addition to expressing the arithmetic mean the term "Averages" has become of technical use in connection with marine insurance. Losses arising out of shipping disasters are termed either "total losses" or "partial losses." If the ship insured is (1) destroyed, or (2) irreparably damaged, the loss is a "total" loss. On the other hand, partial losses consist of damages or losses which, as the term implies, do not involve the whole ship or its cargo. Such losses are termed either "Particular Average" or "General Average" losses. A **Particular Average** is one arising from the perils of the sea, and which falls solely on the owner of the goods involved, and for which he has no right of contribution from others interested in the venture. A **General Average** is the term employed to indicate the common contribution made by all parties in a venture, in cases where losses have been sustained owing to the necessary sacrifice of a portion of the cargo or of the ship's gear, in order to insure the safety of the ship and the remainder of the cargo. In order to claim justification, the sacrifice involved must have been essential to the avoidance of a *total* loss. In arriving at the contributions due under General Average, the loss incurred is divided *pro rata* among all parties. Salvage charges may also, in certain circumstances, be treated as partial losses,

Award.—See "Arbitration."

Bank Rate.—See "Bank Return."

Bank Reserve.—See "Bank Return."

Bank Return.—The statement of its financial position published by the Bank of England on Wednesday in each week. For further information see Chapter XXII.

Banker's Drafts (Bank Drafts).—Bills of Exchange drawn by one banker upon another. They are used in commerce as a means of remittance, especially for the remittance of money from one country to another. Almost any bank will sell, either to its customers or the public, a draft drawn on any place in the U.K. or abroad, and the draft may be made payable to the person obtaining it, or to any other person designated by him. For inland Banker's Drafts a commission is sometimes charged, but in the case of foreign or colonial Bank Drafts the drawing banker's remuneration usually takes the form of a small difference obtained by him in the rate of exchange; or the interest obtained by him for the time the money remains in his hands.

Bill of Lading (B/L).—See p. 221.

Bill of Sale (B/S).—A document transferring personal property from one person to another—commonly given as security for a loan. When a Bill of Sale is given as security for a loan, the latter must not be less than £30, the Bill of Sale must be in a prescribed form, and must be registered at a prescribed public office. The goods remain in the possession of the borrower until he fails to comply with the terms upon which the loan was contracted, and the lender can then seize and sell the goods.

Bills of Exchange (B/E).—See Chap. XII, p. 214 *et sqq.*

Board.—A term applied to executive officers acting collectively, *e.g.* the "Board of Directors" of a Limited Company.

Board of Trade.—A Government department (established in 1656) entrusted with the supervision of all matters relating to trade, navigation, railways, etc. The Board, as a Board, exists but never meets, all business being transacted by the President

(who is ordinarily a Cabinet Minister), or through the Secretaries (who are civil servants).

Bond.—In English law a document under seal, the giver of which binds himself to pay a specified sum of money on special conditions, or at a given date, either to a prescribed person or to bearer. Most foreign governments, many British, foreign, and colonial corporations, and railway companies, issue Bonds to secure advances made to them, or loans publicly issued by them. In the U.S., railway loans which would in England be covered by "debentures" are covered by "Bonds to bearer," issued usually for $1,000 each. These Bonds are largely held by insurance companies and private investors in this country, and are frequently secured by a charge upon the railway. The term "**Gold Bond**" is commonly applied to such Bonds as are payable in gold, and not in paper money or silver. In the case of dutiable goods imported into this country and warehoused, the importers frequently give to the Government a Bond or undertaking to pay the duty when the goods are removed from the warehouse specified. Such a warehouse, though it may be privately owned, comes within the supervision of the customs authorities, and is termed a "**Bonded Warehouse,**" and the goods stored within it are termed "**Goods in Bond.**"

Bonus.—An additional and occasional dividend arising out of unusual profits paid to the shareholders of a public company. A special present or additional remuneration given to an employee, usually in the form of a percentage on results. A share of the profits earned by a life insurance company allocated to such of its life policy holders as hold policies entitling them to share in the profits so realised.

Book Debts.—The amounts outstanding at a given date, and owing to the trader, in whose books they appear, by the persons with whom he has traded.

Bottomry—Bottomry Bond.—A special form of charge given by the owner or captain of a vessel upon the vessel itself in return for money lent. "Bottomry" is a corruption of the word "bottom," or keel of the ship, which part of the vessel is taken to imply the whole. In case of money borrowed on Bottomry the principal is not repayable if the ship be lost, but is repayable with any agreed interest upon the safe termination of the voyage. Bottomry Bonds and Respondentia Bonds (*i.e.* bonds secured on the *cargo* instead of the *hull* of a ship) have, through the extension of telegraphic facilities, fallen into disuse.

Brokers.—See "Jobbers."

Bullion.—Gold and silver in practically any form when of the standard fineness accepted by the mints of the civilised world. Before the 1914–18 war gold was minted into coin free of charge by the British Mint, but the privilege was rarely taken advantage of. No one may now take gold to the Mint for conversion into sovereigns, except the Bank of England.

Cash Credit.—An undertaking whereby a bank permits a customer to overdraw his current account up to a specified sum. Cash credits are not commonly used in London, loans of round sums for specified periods taking their place. In granting a Cash Credit the bank usually requires from its customer some kind of security to cover, wholly or in part, the overdraft granted; the security may take the form of a deposit of bonds, title

deeds or other realisable property, or the banker may accept the customer's personal bond with sureties, the latter guaranteeing to the bank full payment of its claims under the Cash Credit.

Certificate.—A written declaration testifying to the truth of some particular matter or fact. **Share Certificate.**—A Certificate under the seal of a company evidencing the ownership of shares in the company.

Chambers of Commerce.—Associations of merchants formed for the purpose of promoting commerce generally.

Charter Party.—A lease of a ship, or a part of a ship, for the conveyance of goods for a definite time, or for a specified voyage or voyages.

Chattels.—A legal term for "goods."

Choses in Action.—A legal expression denoting certain forms of incorporeal property, *e.g.* debts, and shares in joint stock companies.

Circular Note.—A document issued by a banker to a customer going abroad. Circular Notes are usually issued for round sums, *e.g.* £10, and can be cashed by the party holding them at any of the foreign correspondents of the issuing bank, as if they were bank notes.

Circulating Assets. (See "Current Assets.")

Clearing, Clearing House.—The word "Clearing" is applied to the process whereby, as among a coterie of persons having a multitude of claims the one against the other, the claims due between the members as a whole are offset one against another, and only the differences or "balances" found to be due between the various parties are paid or received. Such a process results in economy of currency as well as economy of time and labour. **Bankers' Clearing Houses** (for the adjustment of the totals of the cheques held by one bank on another) exist in London, and several large provincial towns. The London Clearing House is the most important of these institutions, and consists of three divisions, viz. the "Town" clearing (for cheques drawn upon certain great city banks), the "Metropolitan" clearing, for cheques payable in the metropolis outside the limits of the "Town" clearing, and the "Country" clearing, for cheques drawn on the provinces. Every bank treats itself as the debtor of the Clearing House for all its own cheques presented for payment through the Clearing House, and as the creditor of the Clearing House for all cheques on other Clearing bankers held by it, and either pays to, or receives from, the Clearing House the difference between the two in the form of a single transfer on the Bank of England which acts as Banker to the Clearing House and its members. **Railway Clearing Houses** formerly existed for the adjustment of transactions which involved the use of two or more companies' systems. A **Stock Exchange Clearing House** exists on the London Stock Exchange to facilitate the prompt settlement of dealings in certain securities widely dealt in.

Codicil.—A supplement to a will. It requires execution by the maker of the will with all the formalities which are necessary in the case of a will.

Collateral Security.—Any security deposited to cover, collaterally, a debt due upon another agreement or security (the "principal" security); *e.g.* stocks or shares may be deposited as

Collateral Security for loans obtained from a banker, or to cover an overdraft in a banking account.

Commercial Credit.—An undertaking whereby a bank engages to accept on behalf of an importer documentary bills drawn upon it by the relative exporter for the cost of the shipment. The bank, in such a case, holds the documents of title to the goods as security, as against the importer upon whose behalf it has accepted the bills, for the amounts of the acceptances.

Commission (Com.).—Agents and brokers are usually remunerated by means of a percentage (called a commission) upon the funds passing through their hands, *e. g.* $\frac{3}{16}$th per cent. commission is usually charged by a stockbroker for purchasing Consols for a client. A commercial traveller is not uncommonly rewarded by being allowed a commission of so much per cent. on the net value of the orders he secures.

Committee.—A body of persons appointed by a larger body of persons to transact some particular business in which all the persons are interested.

Company.—An association of persons for trading or professional purposes. (See Chap. XVI on joint stock companies.)

Compensating Errors.—Errors in a set of books which do not prevent the agreement of the trial balance—one error, or set of errors, in one direction being equalised and offset by other errors in a contrary direction. *E. g.* if the debit side of the Cash Book be added £10 in excess of the correct amount, and the Sales Book be added incorrectly likewise £10 in excess of the true amount, these two errors offset one another, and the trial balance "agrees" notwithstanding their existence.

Composition.—An arrangement between a debtor and his creditors whereby the latter accept in full settlement of their debts lesser sums than are actually owing. (See Chap. XIX, "Bankruptcy.")

Consideration.—Some benefit accruing to one party to a given contract or agreement, or some loss or detriment suffered by the other party; in other words, the price or subject-matter of a bargain. In the case of an agreement under hand (see "Agreement") Consideration is necessary, otherwise the agreement is void, and sentiment, *e. g.* gratitude, is not legally a valuable Consideration capable of supporting a contract under hand based upon it. In the case of a Deed (*i. e.* an agreement "under seal") no Consideration is necessary.

Consols.—An abbreviation of the word "consolidated." The various issues of the debts of the Government have, from time to time, been merged into one mass, and the "**Consolidated Stock**" (as the result of the merger is termed) forms, at the present day, part of the National Debt, known as the Funded Debt. The name "Consols" is applied in common parlance to the U.K. 2½ per cent. Consolidated Stock. The word "consolidated" often appears as forming a part of the names of stocks, and usually indicates that some merger has been effected in the past. *E. g.* London County Consolidated 3 per cent. Stock.

Consul.—A commercial representative of a nation appointed by the Government and stationed in the territory of another nation chiefly for the purpose of protecting the commercial interests of the country that he represents.

Contingent Liability.—A liability which will only come into

definite existence upon the happening of a specified event, *e. g.* the liability of an indorser on a bill of exchange, which only commences upon the dishonour of the bill by the acceptor. Contingent Liabilities are most suitably stated in a balance sheet in the form of a memorandum, or footnote.

Contract.—An agreement enforceable at Law. (See "Agreement.")

Contract Note indicates commercially a memorandum of a sale effected for a principal by a broker, *e.g.* a stockbroker.

Coupon.—A detachable warrant for each payment of interest falling due upon a bond or debenture to bearer. Coupons are attached to such bonds in sheets, much in the form of a sheet of postage stamps, a dated coupon being given for each payment falling due. As their due dates arrive coupons are cut off from the sheet, and are presented to the appropriate bank or office for encashment. Many sheets of coupons only extend for a given number of years, a larger detachable coupon called a "**Talon**" being attached as a voucher for a fresh supply of coupons when those attached have all expired. Coupons may be paid into the bank of the investor for collection. The receiving bankers collect and credit their customers with the amounts due (less tax) in the ordinary course.

Credit Note is a statement (frequently made out in red ink) sent to a person from whom "returns" have been received, or to whom an "allowance" has been made. The Credit Note sets out brief particulars of the transaction, and the amount which is being passed to the credit of the recipient of the note.

Currency.—In the narrower sense, currency is the legal tender money of a country used for the payment of debts. As to legal tender currency in Great Britain and Northern Ireland see "Legal Tender," p. 704. In the wider sense, the word "currency" includes cheques, bills of exchange, etc., and bank notes not constituted legal tender, *e.g.*, the notes of the Scottish and Northern Irish banks of issue, all of which instruments are freely current and do the work of money.

d/d = days after date.

d/s = days after sight.

Current Assets.—These are the converse of fixed assets. They are the assets which a trader or manufacturer holds for sale or conversion into cash in the ordinary course of business, *e.g.* stocks, debtors, bills of exchange, etc. Cash itself is also a current asset. Formerly known as floating, or circulating, assets.

Debenture.—See Chap. XVI.

Debit Note.—A memorandum of indebtedness sent by a creditor to his debtor.

Deed.—An instrument in writing on parchment or paper, signed, sealed, and delivered by the maker of it. It is the most formal type of instrument known to English law, and needs no consideration to make it valid. The seal is the distinguishing sign of a deed.

Deed of Arrangement.—See under "Arrangement, Deed of."

Demurrage.—Allowances by shippers or railway companies in case of the over-detention of goods entrusted to them for conveyance. The charge is usually upon a daily basis. Legal holidays and Sundays are not included in the demurrage charge.

Depreciation.—See "Amortization."

Dis. = Discount.

Distress.—Distress is the power to enforce the payment of a debt; such power is granted by the Common Law of England and is effected by the seizure of goods. The most common event in which the power of Distress is resorted to is the collection, by this means, of arrears of rent by a landlord from his tenant.

Dividend.—Etymologically "something to be divided"; in commercial practice the term indicates the sum or sums distributable among the share or stockholders of a public company. **Ex Dividend** and **Cum Dividend** are terms employed on the Stock Exchange to convey, in the former case, that the quoted price of the security in question does not include the next dividend, and in the latter case that such price does include such dividend.

Dividend Warrant.—A species of cheque issued by or for a dividend paying company, whereby its members obtain their dividends.

Dock Warrant.—A document issued by the authorities of a dock certifying that certain goods, specified therein, are in the custody of the dock for and on behalf of the party in whose name the Warrant is drawn. Dock Warrants are, as a rule, transferable by endorsement, and need a 3*d*. stamp. When such goods are withdrawn from the dock a **Delivery Order** is signed by the proprietor of the goods instructing the dock authorities to deliver to the bearer of the order the goods, or a portion of them, specified in the Dock Warrant. A Dock Warrant is a document of title, and a negotiable instrument.

Dormant Partner.—A partner in a firm whose name does not appear in the title or style of the firm, and who takes no active part in the conduct of its business, but who possesses capital in the concern, takes a share of the profits, and bears all the liabilities incidental to the position of a partner.

E. & O. E. is the contraction of the words "Errors and Omissions Excepted," which is still frequently to be found on invoices, etc. The practice of appending these letters is a useless one, and of no legal value whatever.

Endorsement, Endorsee, Endorsor.—See Chap. XII.

Endowment Policy.—A policy of assurance granted upon a person's life, the amount secured by which is payable to the assured person upon his reaching a certain specified age; or to his representatives at his death should the assured die before attaining the specified age. Premiums upon such policies are payable in some cases for the term of the policy, and in others for a limited number of years only. The policies may be entitled to a share in the profits or be "non-profit sharing" according to arrangement.

Entry.—A record of a transaction made in its appropriate place in the appropriate book. The first Entry made in relation to any given transaction in a Book of Account, is termed the "*original*" Entry; subsequent Entries, arising from the "original" Entry, in other Books of Account are termed "*posted*" Entries, and the act of making them is referred to as "posting" the original Entries.

Entry, Port of, is a port at which exported goods may be unloaded, *e. g.* Boston is a Port of Entry for the U.S. Where protective tariffs are in force all imported goods must be landed at certain ports where revenue officers are stationed, and where the machinery necessary for assessing the amount of the tariff exists.

Estate.—A quantity of property. In bankruptcy, and with

reference to the property of a deceased person, the word "Estate" is used to "signify the aggregate of the property in question."

Estate Duty.—A Duty payable to the Government upon the death of any person leaving property to the value of over £2,000. It is payable upon the aggregate of the estate at a rate per cent. calculated according to a scale varying with the total amount of the deceased's estate.

Ex. = Exchange. Also "out of," e. g. *ex* s.s. *Lucania*; *ex* warehouse.

Exchequer Bills.—Bills issued by the Treasury to raise money for temporary purposes. Exchequer Bills form part of the floating or unfunded debt of the nation. Their price fluctuates with the national credit.

Exchequer Bonds.—Bonds issued by the Treasury for a definite period, to raise money for the same purpose as that for which Exchequer Bills are issued.

Excise Duties.—Duties placed upon specified articles (chiefly alcoholic liquors) produced and consumed at home.

Execution.—The seizure of goods owned by a person against whom a judgment has been given in a civil court, for the purpose of satisfying the amount of the judgment by the proceeds of their sale.

Executor.—A person appointed by a testator in his will to carry out the instructions contained in the will. (See "Administrator.")

Exempt Private Company.—A private company which complies with the provisions of the *Companies Act*, 1948, and the Seventh Schedule. The most important of these provisions are that:—

(1) No body corporate holds any of the company's shares or debentures, or is a director of the company. An exempt private company cannot therefore be a subsidiary of another company.

(2) No person other than the holder has any interest in any of the company's shares or debentures, unless by way of charge to a banking or finance company in the ordinary way of business or unless the shares or debentures form part of a deceased's estate or family settlement. This prevents another company having an interest through nominees.

A certificate, signed by the same persons who signed the Annual Return (viz., a director and the secretary) stating that the conditions have been complied with must accompany the Annual Return and the company is then exempted from the necessity which it would otherwise be under to file a copy of its accounts.

Factor.—A mercantile agent entrusted with the custody and control of goods belonging to his principal. Unlike a broker, a factor often sells in his own name and often owns the goods he sells. Hence a buyer from a factor does not usually know who is the actual owner of the goods he buys.

Firm.—A partnership. (See Chap. XV.)

Fixed Assets or **Fixed Capital.**—Properties acquired or constructed with the expectation of earning profits by their use. (See Chap. XIX.)

Fixed Charges.—Expenditure recurring constantly in periodical accounts. *E. g.* Rent, Rates, Taxes, and Interest on Mortgages.

Floating Assets. (See "Current Assets.")

Floating Charge.—A charge given by a company upon its property whereunder the company retains possession of the property charged, and may deal with it in the ordinary course of business until the company makes some default (*e. g.* fails to pay the interest upon the debentures conferring the Floating Charge), whereupon the charge "crystallises," and attaches to the property in whatever form it may then be. Upon the "crystallisation" of the charge the company may no longer deal with the property.

F. O. B.—Free on board. That is to say, the price of the goods includes the charges for packing, cases, carriage to the docks, dock charges, in fact all charges up to the point when the goods are actually on board the ship. Goods bought to be placed on board a ship F. O. B. are not at the risk of the purchaser until actually on board the ship. F. O. R. = free on rail.

Folio.—A sheet of paper folded so as to make two leaves; in book-keeping the two pages, bearing the same "page number," presented to view when the book is opened. Ledgers and Cash Books, in which the ruling extends across the two pages open to view thus usually consist of a succession of "Folios"; a Journal ruled according to the form given on p. 85 does not usually extend over the two pages open to view, but is repeated on each of them; such a book consists of "pages," and each "page" is numbered separately.

Fraudulent Preference is legally defined as: "Every conveyance or transfer of property, or charge made thereon, every payment made or obligation incurred, and every judicial proceeding taken or suffered, by any person unable to pay his debts as they become due, from his own money in favour of any creditor or any person in trust for any creditor *with a view* of giving such creditor a preference over the other creditors, shall, if the person making, taking, paying, or suffering the same is adjudged a bankrupt on a bankruptcy petition presented within three months after the date of the making, taking, paying, or suffering the same, be deemed fraudulent and void as against the trustee in the bankruptcy." The most important factor in deciding whether any given transaction was fraudulent is the real *intention* of the bankrupt.

Freight.—The sum paid for chartering a ship or part of a ship, or for transmission of goods in a general ship. Freight may be payable either in advance, on departure of the vessel, upon arrival, or at other times as stated in the bills of lading.

Garnishee Order.—The method of execution by which a person who, owing a debt to a person against whom a judgment has been pronounced, is ordered by the Court on the application of the party in whose favour the judgment has been given not to pay such debt to the person to whom it is due, but to pay it to the judgment creditor.

Gazette.—The *London Gazette* is the Government publication containing all the official notices of the Crown or Government. All the public notices necessary under Bankruptcy or Liquidation proceedings are advertised in the *Gazette*. Partnership notices should also be advertised in the *London Gazette*. In Scotland and Ireland similar notices appear in the *Edinburgh Gazette* and the *Dublin Gazette* respectively (published Tuesdays and Fridays).

General Average.—The loss sustained from a sacrifice purposely made in order to preserve a ship and its cargo (*e. g.* jettison-

ing a cargo). The person who has sustained the loss is entitled to recover a rateable contribution from all owners of cargo shipped in the vessel, and from all interested parties, the loss having been incurred for the benefit of all. (See also "Averages.")

Gilt-edged Securities.—Securities which are easily realisable and in which the due payment of interest and principal, as and when due, may be taken to be as safe as is humanly possible, *e. g.* the various loans contracted by the British Government, etc.

Guarantee.—A promise by one person to answer for the debt, default, or liability of another person. A Guarantee must be in writing (Statute of Frauds), and must, unless under seal, be given for valuable consideration, although the latter need not be stated.

Guaranteed Stocks.—Stocks, the interest upon which is guaranteed by some undertaking, or by Government, or by some body other than the undertaking by which it was originally issued and which is primarily responsible.

Guard Book.—A book or cover wherein are preserved invoices, receipts, or vouchers.

Hire-Purchase Agreement.—A contract between two parties, the "owner" and the "hirer," whereby on payment of a deposit followed by stipulated instalments on pre-arrangement dates, the hirer has the use of the goods which are the subject of the contract. The legal ownership remains ordinarily with the "owner" till the final instalment is paid, when the ownership passes to the hirer. These contracts are subject to the Hire Purchase Act 1938, which contains detailed provisions regarding the rights of the parties in various eventualities, and in particular as to the terms on which the owner may recover possession of the goods, or a part of them, in the event of the hirer not being able to complete the stipulated payments: further, the Act lays down that certain information as to the hirer's rights must be embodied in the contract, which must be in writing and signed by both parties. In the books of a manufacturer or seller of goods upon the "hire-purchase" system, the goods disposed of in this manner should, for the period previous to the receipt of the last instalment due upon them, be treated as "stock out on hire"—a separate Memorandum Ledger being kept for the accounts of the various hirers, as also a separate "Hire-Purchase Day Book." The *total of the instalments due from a hirer* should, at the outset, be debited in his account in this Memorandum Ledger, but the entry in the Sales Day Book for this department of the business will be made upon the signature of the agreement at the *cost price* of the goods. The valuation of the amounts due from the various debtors under Hire-Purchase Agreements will be made at the end of any trading period as if they were stock in hand in the department concerned, and the amount at which any particular batch of goods should be valued will be arrived at by deducting from the hirer's debit balance the unpaid proportion of the profit. The total of the issues of stock under Hire-Purchase Agreements for the trading period (as ascertained by the Sales Day Book for this department of the business) will be credited to the Trading Account, and debited to the "Stock out on Hire-Purchase Account," in the General Ledger, to which account will be credited all receipts from hirers throughout the period, together with the value of the stock out on hire at the end of the period, calculated upon the basis given in the preceding paragraph—the

latter amount being brought down as a balance of stock on hand. The "Stock out on Hire-Purchase" will then show a difference, representing the Profit or Loss upon hire-purchase trading generally; this difference must, in due course, be transferred to the Profit and Loss Account.

A specimen of a "Stock out on Hire-Purchase" Ledger is shown on p. 701.

In cases where the articles acquired under a Hire-Purchase Agreement amount to a considerable sum, for example, Railway Wagons, it is necessary to ascertain how much of each instalment represents interest, and how much payment for the intrinsic value of the assets purchased. This course is necessary, as it will be obvious that the instalments comprise both revenue and capital items. The question of depreciation will also need careful adjustment.

Holding Out.—A legal expression indicating the representation by a person that he is a partner in a particular firm. A person who "holds himself out" as being a partner in a specified firm is liable as if he were a partner to any person giving credit to the firm in question upon the strength of such representation.

Hypothecate.—To pledge or mortgage. Assets are said to be "hypothecated" when a charge upon them is given to a creditor by way of security.

Income.—The amount of money coming regularly to a person either from property or in payment for services rendered.

Income and Expenditure Account.—Another name for a Profit and Loss Account; the term is frequently applied to the Profit and Loss Accounts of non-trading institutions and charities.

Incorporation.—The creation of a legal body. The life of an incorporated body is deemed to be perpetual, except in so far as it may be limited by the instrument of incorporation. An incorporated body cannot be made bankrupt. It can be brought to an end only by following the procedure laid down in the *Companies Act*, 1948.

Increase of Capital.—A company may, subject to the regulations contained in its articles of association, resolve that the limit of its authorised capital shall be increased to any desired sum. Government duty is payable upon the increase just as in the case of, and at the same rate as, the original capital. If the articles of association contain no powers authorising an Increase of Capital, a resolution of the company is necessary to alter the articles to give the powers.

Indent.—A term somewhat loosely applied to orders from agents or correspondents abroad.

Indenture.—A deed; formerly a deed with serrated edges.

Infant.—Legally, a person under the age of twenty-one years.

Inscribed Stocks.—Stocks, the holders and holdings of which are *inscribed* (*i. e.* recorded) in the books of a specified registrar, no separate certificate of ownership being issued to the proprietor. The British Government Debt and many municipal corporation and colonial borrowings exist in the form of inscribed stock. A purchaser of inscribed stock receives a memorandum from the seller called a "Stock receipt," recording the receipt by him of the purchase money; the receipt, however, is of no value except as a memorandum, and need not be produced when the purchaser sells

STOCK OUT ON HIRE-PURCHASE ACCOUNT

Dr. **Cr.**

			£	s.	d.				£	s.	d.
19— Jan. 1	To Value of Stock out on Hire-Purchase Agreements at this date		962	10	9	19— Dec. 31	By Receipts from Hire-Purchasers during the year		1,010	12	9
Dec. 31	„ Cost of Stock sent out under Hire-Purchase Agreements during the year (as per Hire-Purchase Sales Day Book) ...		3,240	10	0	„ 31	„ Value of Stock in hands of Hire-Purchasers at the end of the year (being the amount of the instalments not yet paid, after deducting the proportion of profit included therein)		3,625	3	4
„ 31	„ Transfer to Profit and Loss Account, being the profit upon Hire-Purchase business for the year		432	15	4						
		£	4,635	16	1			£	4,635	16	1
19— Jan. 1	To Value of the Stock out on Hire-Purchase Agreements at this date		3,625	3	4						

his holding. Transfers of such stocks from a seller to a purchaser are made in person, or by an attorney, at the office of the registrar, and not otherwise. A large number of stocks, including the British Government Debt, are inscribed at the Bank of England. Stocks which are thus inscribed are deemed to be less liable to fraudulent conversion than where the ordinary methods of transfer obtain.

Insolvency.—Inability to pay one's debts. (See Chap. XIX, "Bankruptcy.")

Interest.—Interest is the compensation or "rent" paid by a borrower for a loan of money. It may be regarded as consisting of two portions, one the rent paid for the use of the loan, the other as a premium (in the nature of an insurance premium) for the risk of losing it. Money does not produce interest of itself, but only when lent; the interest on capital credited to the partners in a business out of the profits of that business is not interest in the true sense of the word; it is only termed interest upon the analogy of a loan and for financial reasons.

Interest on Capital during Construction.—Although a company may, and indeed must, pay all interest becoming due to its various loan or debenture creditors notwithstanding the fact that its works may still be in course of construction, and as yet earning no profits, it may not ordinarily pay any interest or dividends to shareholders except out of profits. With the special sanction of the Board of Trade, and if provided for by its own constitution, a company may pay interest to its shareholders during construction of its works or equipment, but the permission to do so is commonly coupled with

various restrictions both as regard the rate of interest and the period of its payment. (*Companies Act*, 1948, *sec.* 65.)

Interim Dividends.—Dividends declared at some intermediate date during a financial period, and provided either out of current profits, or out of the profits brought forward from the preceding period. In a joint stock company the power of declaring dividends rests with the company in general meeting, but the articles of association of the majority of companies authorise the directors of the company to declare "interim dividends."

Inventory.—A list or catalogue of articles, *e.g.* of fixtures and fittings.

Investment.—Property acquired for the sake of the income derived from it, and as a repository for funds owned by the purchaser. The income yielded comes to the investor in the form of interest, or as a share of profits earned by the employment of his money, and he is usually not an active participator either in its supervision or its production. Land, buildings, leases, loans upon mortgage, and ground rents are types of Investments relating to real property (*i. e.* to land); they were, prior to the institution of national debts and joint stock companies, the principal form of Investment; in this country, however, their vogue, as Investments, is not so great as it was, owing to the industrial revolution and the consequent migration of the bulk of the population into the large towns. What are known as "Stock Exchange" Investments form, now-a-days, the type of Investment to which the word is most commonly applied. The securities dealt in on the Stock Exchange are the obligations or indebtedness in various forms of almost every civilised country, whether as national, inter-state, or municipal debts; and the borrowings and the transferable shares of the innumerable British, foreign and colonial joint stock companies at present existing. As regards form, Stock Exchange Investments are of three types, viz. (*a*) **To Bearer,** transfer being effected by means of the simple delivery of the document. (*b*) **Registered,** the security being registered in the name of the holder for the time being, and a certificate of ownership being issued to him. Transfers are effected by written documents. (*c*) **Inscribed.** The characteristics of this class of security are similar to those of registered Securities, except that the holder receives no certificate of ownership. (See "Inscribed Stocks.") It is impossible within the compass of these notes to discuss the question of Investments exhaustively; the following brief considerations may, however, be submitted for consideration. 1. That Investments cannot be obtained producing a high rate of interest without an accompanying element of risk, the higher the yield the greater, as a rule, the risk. 2. That at the present time an investor who purchases stocks yielding over 6 per cent. per annum must, as a general rule, be prepared to face some degree of insecurity as regards the principal invested. 3. That, as between any two stated securities, one of which yields a higher return than the other, the increased return obtainable from the one security is usually, as compared with the other security, disproportionate to the additional risk involved. An executor or trustee has not a free hand regarding the choice of securities in which he may invest. His powers in this connection are defined in the *Trustee Act*, 1925, and the *Colonial Stock Act*, 1900, and unless (as quite often happens) he is given wider powers by the Will or Deed appointing him he

must restrict the making of investments to securities authorised by the above Acts. Should he fail to so he will become personally liable in the event of any loss resulting.

The principal authorised investments at present are :—

(1) Any parliamentary stocks, public funds or Government securities of the United Kingdom.

(2) "Real" securities in the United Kingdom, including a legal mortgage on freehold land.

(3) Any securities the interest of which is for the time being guaranteed by Parliament.

(4) Consolidated stock created by the Metropolitan Board of Works or the London County Council.

(5) The debenture or guaranteed or preference stock of any company in the United Kingdom established for the supply of water for profit and incorporated by special Act of Parliament or by Royal Charter and having during each of the last ten years before the date of investment paid a dividend of not less than 5% on its ordinary stock.

(6) Stock issued by the corporation of any municipal borough in the United Kingdom having a population exceeding 50,000 or any county council.

(7) Any Colonial Stock registered in the United Kingdom with respect to which there have been observed such conditions (if any) as the Treasury may prescribe.

Invoice.—A written statement rendered by a person parting with goods by sale or consignment to another person, giving the quantities, prices, and nature of the goods in question. A *pro forma* invoice is for reference only, and is employed (1) when goods are sent out "on approbation," (2) for use in the case of consignments abroad, (3) when dealing with the Customs authorities.

Invoice Book.—A record of invoices. The name is applied somewhat loosely to all of the three following kinds of books : 1. The Sales (or Purchases) Journal. 2. The guard book containing the original invoices received in respect of purchases of goods. 3. The carbon or press copies of "sales" invoices.

I O U.—The recognised contraction for "I owe you." A written acknowledgment of a debt, containing no specified date for repayment, usually given as a voucher for, or evidence of, a temporary loan for a small amount. The following is the common form—

To Mr. O. Harris,

I O U

Ten pounds.

Robert James.

August 13, 19—.

An I O U as above requires no stamp. The name of the creditor need not appear on the document. Any specification of a due date added to the above form would convert it into a promissory note, and would render it inadmissible as evidence unless stamped as a promissory note. An I O U is not a negotiable instrument.

Jettison.—The act of throwing overboard cargo or gear for the purpose of lightening the ship when in peril. (See "General Average.")

Jobbers, stock jobbers, dealers or merchants in stocks and shares

various restrictions both as regard the rate of interest and the period of its payment. (*Companies Act*, 1948, *sec.* 65.)

Interim Dividends.—Dividends declared at some intermediate date during a financial period, and provided either out of current profits, or out of the profits brought forward from the preceding period. In a joint stock company the power of declaring dividends rests with the company in general meeting, but the articles of association of the majority of companies authorise the directors of the company to declare "interim dividends."

Inventory.—A list or catalogue of articles, *e.g.* of fixtures and fittings.

Investment.—Property acquired for the sake of the income derived from it, and as a repository for funds owned by the purchaser. The income yielded comes to the investor in the form of interest, or as a share of profits earned by the employment of his money, and he is usually not an active participator either in its supervision or its production. Land, buildings, leases, loans upon mortgage, and ground rents are types of Investments relating to real property (*i. e.* to land); they were, prior to the institution of national debts and joint stock companies, the principal form of Investment; in this country, however, their vogue, as Investments, is not so great as it was, owing to the industrial revolution and the consequent migration of the bulk of the population into the large towns. What are known as "Stock Exchange" Investments form, now-a-days, the type of Investment to which the word is most commonly applied. The securities dealt in on the Stock Exchange are the obligations or indebtedness in various forms of almost every civilised country, whether as national, inter-state, or municipal debts; and the borrowings and the transferable shares of the innumerable British, foreign and colonial joint stock companies at present existing. As regards form, Stock Exchange Investments are of three types, viz. (*a*) **To Bearer,** transfer being effected by means of the simple delivery of the document. (*b*) **Registered,** the security being registered in the name of the holder for the time being, and a certificate of ownership being issued to him. Transfers are effected by written documents. (c) **Inscribed.** The characteristics of this class of security are similar to those of registered Securities, except that the holder receives no certificate of ownership. (See "Inscribed Stocks.") It is impossible within the compass of these notes to discuss the question of Investments exhaustively; the following brief considerations may, however, be submitted for consideration. 1. That Investments cannot be obtained producing a high rate of interest without an accompanying element of risk, the higher the yield the greater, as a rule, the risk. 2. That at the present time an investor who purchases stocks yielding over 6 per cent. per annum must, as a general rule, be prepared to face some degree of insecurity as regards the principal invested. 3. That, as between any two stated securities, one of which yields a higher return than the other, the increased return obtainable from the one security is usually, as compared with the other security, disproportionate to the additional risk involved. An executor or trustee has not a free hand regarding the choice of securities in which he may invest. His powers in this connection are defined in the *Trustee Act*, 1925, and the *Colonial Stock Act*, 1900, and unless (as quite often happens) he is given wider powers by the Will or Deed appointing him he

must restrict the making of investments to securities authorised by the above Acts. Should he fail to so he will become personally liable in the event of any loss resulting.

The principal authorised investments at present are :—

(1) Any parliamentary stocks, public funds or Government securities of the United Kingdom.

(2) "Real" securities in the United Kingdom, including a legal mortgage on freehold land.

(3) Any securities the interest of which is for the time being guaranteed by Parliament.

(4) Consolidated stock created by the Metropolitan Board of Works or the London County Council.

(5) The debenture or guaranteed or preference stock of any company in the United Kingdom established for the supply of water for profit and incorporated by special Act of Parliament or by Royal Charter and having during each of the last ten years before the date of investment paid a dividend of not less than 5% on its ordinary stock.

(6) Stock issued by the corporation of any municipal borough in the United Kingdom having a population exceeding 50,000 or any county council.

(7) Any Colonial Stock registered in the United Kingdom with respect to which there have been observed such conditions (if any) as the Treasury may prescribe.

Invoice.—A written statement rendered by a person parting with goods by sale or consignment to another person, giving the quantities, prices, and nature of the goods in question. A *pro forma* invoice is for reference only, and is employed (1) when goods are sent out "on approbation," (2) for use in the case of consignments abroad, (3) when dealing with the Customs authorities.

Invoice Book.—A record of invoices. The name is applied somewhat loosely to all of the three following kinds of books: 1. The Sales (or Purchases) Journal. 2. The guard book containing the original invoices received in respect of purchases of goods. 3. The carbon or press copies of "sales" invoices.

I O U.—The recognised contraction for "I owe you." A written acknowledgment of a debt, containing no specified date for repayment, usually given as a voucher for, or evidence of, a temporary loan for a small amount. The following is the common form—

To Mr. O. Harris,
I O U
Ten pounds.
Robert James.

August 13, 19—.

An I O U as above requires no stamp. The name of the creditor need not appear on the document. Any specification of a due date added to the above form would convert it into a promissory note, and would render it inadmissible as evidence unless stamped as a promissory note. An I O U is not a negotiable instrument.

Jettison.—The act of throwing overboard cargo or gear for the purpose of lightening the ship when in peril. (See "General Average.")

Jobbers, stock jobbers, dealers or merchants in stocks and shares

on their own account. **Stock Brokers** are agents appointed by their clients to deal in stocks for them; a broker, who is a member of the London Stock Exchange, upon receiving an order from a client to purchase stock buys it from a jobber and not from another broker.

Joint and Several Liability.—If two or more persons are **jointly** liable for any particular debt or obligation, a plaintiff obtaining judgment against any one of them for the debt is precluded from subsequent action against those not sued by him at the time. In joint liability, the plaintiff should join *all* the defendants in one action. In the case of a **several** liability each person liable may be sued individually and in succession until the judgment is fully satisfied. A liability which is **joint and several** permits of action being taken against all or any of the joint debtors together or one after another, and a judgment obtained against one or more of them does not bar subsequent proceedings against the remainder. The liability of partners is a "joint" one, but they are severally liable for certain matters specified in the Partnership Act. For example, the misapplication of customers' or clients' funds for the firm's benefit.

Judgment.—The decision of a competent court of law.

Latin Monetary Union.—A convention formed in 1865 between Belgium, France, Italy and Switzerland by which silver was made legal tender with gold at the ratio of 15½ silver to 1 of gold. The Great War brought an end to the Union.

Lease.—A grant of property for life, or for a term of years, or from year to year from the owner of property (the **lessor**) to another person (the **lessee**). The consideration is sometimes a yearly or other periodical rent, and sometimes a lump sum paid at the commencement; if the latter, the payment (the **premium**, as it is called) must be written off in the lessee's books over the period of time for which the lease has been granted.

Legacy.—A gift of personal estate by will. Legacies are of three kinds: (1) Specific (of a definite article), (2) General (a sum of money payable out of the general estate), and (3) Demonstrative (payable primarily out of a specific fund, or, on the latter's failure, out of the general estate). Legacy duty was formerly payable on all legacies, with certain stated exceptions, at a rate varying with the consanguinity to the testator. This duty was repealed by the *Finance Act*, 1949.

Legal Tender.—The duly authorised media of exchange. In Great Britain and Northern Ireland Bank of England notes for £1 and 10*s*. are legal tender to any amount. In England and Wales Bank of England notes of higher denomination than £1 and 10*s*. are also legal tender. The Bank's notes for £1 and 10*s*. are legal tender by the bank for its notes of higher denomination. Silver coinage is legal tender up to 40*s*. and bronze coins up to 1*s*. Gold coin and Currency Notes are also legal tender for any amount, but these are now rarely seen in circulation.

Letter of Credit = L/C.—is a request from a banker to his agent or correspondent abroad authorising the agent to pay the drafts of the party named in the letter, provided that party (termed "the beneficiary") observes the conditions under which the Letter of Credit is issued, and to debit the issuing banker with the payments. There are many varieties of these documents.

Liability.—An obligation. The debts of a company or trader

are referred to as the "Liabilities" of the business or person. (See "Contingent Liability.")

Lien.—The right of a person who has the possession of another person's goods or property to retain them if the owner is indebted to him; *e. g.* a solicitor has a "Lien" upon a client's documents for the amount of any costs that may be due to him; a railway company has a right of lien over the goods carried in respect of its charges for carriage of the goods. A **particular Lien** is one which attaches only to some specific article for a specific debt, whereas a **general Lien** covers any property of the debtor held by the creditor as security for debt in general.

Life Assurance.—A contract whereby, in consideration of the payment of a sum down, or of a series of equivalent payments, by the **assured** to the **assurer**, the latter undertakes to pay on the death of the assured, or upon the occurrence of some other specified event in the life of the assured, *e. g.* the attainment of a stated age, a definite or ascertainable sum of money to the person entitled to it under the contract.

Limitation of Actions.—Under the various "**Statutes of Limitation**" persons entitled to enforce any claims against other persons by way of legal action must bring their actions within specified periods of time, otherwise they lose their rights. For contracts made verbally, or in writing under hand, and rights arising out of them, a period of six years from the time when the right of action first arose is allowed, during which a suit in regard to them may be commenced. In the case of instruments or contracts under seal, a period of twenty years is allowed from the time when the right of action first arose, and a period of twelve years is prescribed for certain sums payable out of or charged upon land.

Limited Company.—A company formed under one of the *Companies Acts*, the liability of its members being limited to (1) the amount unpaid on any shares taken by them ("companies limited by shares"); or (2) to the amount they have agreed to contribute in the event of the company being wound up ("company limited by guarantee"). (See Chap. XVI, "Joint Stock Companies.")

Liquid Assets.—Cash, and such assets as can be readily converted into cash. Usually now called current assets.

Liquidator.—A person appointed to wind up or "liquidate" the affairs of a company, by converting all its property into ready money, paying off all the creditors, and returning any surplus to the members of the company.

Lloyd's.—An association of independent insurers originally located at Lloyd's Coffee House. The insurances effected were formerly almost entirely confined to insurances on ships and their cargoes. In modern times, however, the functions of Lloyd's have broadened, and risks of all kinds are constantly undertaken. **Lloyd's Register of British Shipping** is a complete and valuable register of ships and their classification. **A1** denotes vessels of first-class construction; **90 A1** indicates vessels of lower class; and **80 A1** that of the lowest class registered.

Managing Director.—A Director to whom special powers and duties in connection with the management of a company's business have been delegated by the board. The general management of the whole concern is frequently vested in the Managing Director.

Manifest.—A detailed schedule, containing the distinctive marks and numbers and the names of the consignors of all the goods comprising a ship's cargo. This document is prepared for delivery to the Custom House before clearance of the vessel. But it is dispensed with, if the master, or owners of the vessel sign and deliver to the Customs Authorities a declaration that the specifications passed by the exporters constitute a complete account of the goods shipped.

Marine Insurance.—A contract whereby a person having property exposed to "perils of the sea" can secure himself against loss by paying a premium to an insurer, who will compensate him for any loss arising from the perils insured against, *e.g.* through shipwreck and the consequent loss of hull, cargo or freight. (See also "Averages.")

Memorandum of Association (of a company incorporated under any of the *Companies Acts*).—A document containing certain prescribed provisions, signed by the original members of a company at the date of its incorporation. It is registered with the Registrar of Companies, and forms the fundamental document upon the terms of which the company comes into existence. In the case of a company limited by shares the Memorandum must contain—1. The name of the Company, including the word "limited" as the last word thereof. 2. The part of England (includes Wales) or Scotland wherein the company's registered office is to be situated. 3. The objects for which the company is incorporated. 4. A statement that the liability of the members is limited. 5. A statement of the authorised capital with which the company is registered. Clauses 1, 2, 4 and 5 are, in practice, moderately brief, but Clause 3 (known as the "Objects" Clause) is commonly extremely lengthy. This is due to the fact that the company is legally restricted to the objects set out in its Memorandum, and may not embark in matters not covered by it; hence the ingenuity of legal draftsmen usually includes in the objects clause not only power to carry on the initial business for which the company is formed, but general powers to carry on almost every class of business that it is conceivable the company may possibly find it advisable to carry on in order to achieve its main objects.

Mint par of Exchange.—A term used with reference to the comparison of the standard coins of two countries possessing different systems of coinage to express the relative weights (and the resultant relative values) of the precious metal contained in the two coins compared. The Mint par of the gold currency of France, as contrasted with the gold currency of Great Britain, is approximately 124·21, *i.e.* a sovereign contains an amount of gold which would realise 124 francs 21 centimes in France. It is to be observed that the Mint par of Exchange is established on the basis of the content of the standard gold coins of gold standard countries. There can be no Mint par between gold and silver coins although there could be a Mint par between two standard silver coins of silver-using countries. The Mint par of Exchange between two gold standard countries is the theoretical point about which the market value of drafts and cable transfers on either country ought to range, due allowance being made for any question of interest involved, and in practice this is, to a large extent, the case in normal circumstances.

Minute Book.—A book required by the *Companies Acts*,

to be kept by all companies within the purview of the Act. The purpose of the book is to record all resolutions and proceedings of general meetings of the company, and all proceedings of the directors or managers. The "**minutes**" (*i.e.* the record made in this book) of each meeting are commonly signed either by the chairman of that particular meeting or by the chairman of the next succeeding meeting, and if so signed they form legal evidence of the proceedings they purport to record.

Moiety (legal).—A half.

Money.—A term originally confined to coined metal, but now applied generally to any currency used as the equivalent of coin in commercial transactions. The work formerly done by coined Money is now largely accomplished by means of bank notes and various credit instruments, such as cheques and bills. The functions of Money are: 1. To supply a medium for the exchange of merchandise or to recompense services rendered. 2. The common measure by which the differing values of goods are estimated. 3. To furnish a convenient method of expressing obligations, and a method of storing values. 4. To supply a convenient means of transmitting value from one place to another. Gold has now practically established its position as the predominant standard of Money. The **London Money Market** centres round Lombard St. It consists of the aggregate of the lenders and borrowers of loanable capital, or credit, as it is called. The lenders are the great banks; the borrowers are the bill brokers, stock brokers, and the commercial community generally. The Bank of England is not usually regarded as a component of the money market. It stands outside the money market and functions as the arbiter of the rates that should be charged for the use of loanable capital for short periods. The main business of the market consists of the discounting of bills and the granting of short loans (1 to 14 days). Money is said to be "dear" or "cheap" according as the supply of it is scarce or abundant, that is to say, when the amount of loanable capital available is plentiful Money is cheap and *vice versa.*

Mortgage.—A security for a debt created by means of a transfer to a lender of the ownership of property owned by a borrower. Such transfer secures to the lender the sum of money advanced, together with (in the majority of cases) the interest falling due thereon. As a general rule the borrower remains in possession of the property. Upon the full satisfaction of the total amount due under the loan the interest of the lender (the "**mortgagee**") in the property pledged to him comes to an end, and the full ownership reverts to the borrower who effected the pledge (the "**mortgagor**"). Re-transfer of the property pledged is an understood proviso upon repayment of the debt in all cases. If, however, the borrower fails to repay the loan and interest within a certain period after it falls due, the lender becomes the owner of the mortgaged property, and can sell it to reimburse himself for the loan made by him. "**First**" Mortgages of land and buildings are commonly reputed to be a safe form of investment in this country, and ordinarily yield from 4 to 5 per cent. interest per annum, a rate which is appreciably higher than that obtainable on Government Stocks; a "**Second**" Mortgage is the subsequent Mortgage of property already subject to an existing (*i.e.* "first" or "prior") Mortgage. It will be obvious that a second Mort-

gage is not so desirable a form of investment as a first Mortgage, and the rate of interest payable by a borrower for a loan secured in this manner is always appreciably higher than that paid upon the first charge. Debentures commonly contain clauses "mortgaging," for the benefit of the debenture holders, certain property owned by the company which issues them: they are then known as "**Mortgage Debentures.**" A company incorporated under the *Companies Acts*, must, if it creates any Mortgages upon its property, or otherwise charges its assets, keep a record of all such charges in a "**Register of Mortgages,**" such Register being open for the inspection of members and creditors, and it must also keep copies of the instruments creating such charges. All such charges and instruments must be registered by the Registrar of Companies, and the company must endorse upon every debenture or certificate of debenture stock issued by it a copy of the Registrar's certificate, *Companies Act*, 1948, S. 99.

Negotiable Instrument.—A negotiable instrument is a document, usually embodying an acknowledgment of debt, capable of transfer by mere delivery, or by endorsement and delivery. Such documents change hands unaffected by any defect of title on the part of the deliverer, if taken in exchange for value and in good faith. Cheques, bills of exchange, circular notes, bank notes, promissory notes, "bearer" scrip, and exchequer bills, furnish examples of Negotiablo Instruments. The words, "Not negotiable" are useless, from a legal point of view, except when employed upon cheques in connection with an authorised crossing, and upon postal orders.

Net (Latin, nitidus = clean).—In commerce the term expresses the amount or quantity of money or merchandise after all deductions have been made.

Par.—From the Latin word meaning "equal." In commercial circles the word is employed to indicate the nominal or face value of a security. Stocks quoted above the nominal value are said to be **above par,** or conversely **below par.**

Pari Passu.—On an equal footing.

Patent (Patent Right).—An official document granting for a term of years the exclusive right to the use of an invention. These rights are granted by the Crown to the inventor of a new manufacture or "new process." A patent right continues (subject to the payment of certain fees) for sixteen years from the date of the grant; there exists a power to grant to the patentee an extension of his patent for a limited number of years in excess of the original sixteen years, but this power is only exercised in exceptional cases. Where patent rights form part of the assets of a trader or an undertaking care must be taken to see that their original cost is written off over the period for which they exist.

Pawn (or **Pledge**).—A transfer of movable property made by one person (the **pledgor**) to another (the **pledgee**) in order to secure repayment of an advance made by the pledgee to the pledgor, or to secure the fulfilment or performance of some obligation to which the pledgor is subject. The pledgee has the right of selling the property pledged if the pledgor fails to fulfil his obligations at the appointed time.

Payment for honour *supra* protest.—If a bill has been dishonoured when presented for payment, and has subsequently been protested, any person may intervene and pay it for the honour of any party

who may be liable upon the bill, or for the honour of the person for whose account it is drawn. Such a payment is styled one "for honour *supra* protest." In order that the payment should not have the effect merely of a voluntary payment, the transaction must be certified and attested by a notary. The effect of such a payment is to discharge all parties subsequent to the party for whose honour the bill is paid, but it leaves the person who pays for honour with all the rights of a holder of the bill against the person for whose honour he paid, and all persons liable to that person.

Per cent.—By the hundred.

Percentage.—A sum or number signifying a ratio to "one hundred." It is frequently convenient for purposes of comparison to reduce to a common basis the various items contained in a given financial or accounting statement, and the basis commonly taken is usually "one hundred." In the case of a Trading and Profit and Loss Account, it is customary, in reducing the accounts to a percentage form for the purposes of comparison, to take the amount of the sales or turnover as representing "one hundred," and to work out the relation to the sales of all the other items contained in the statement upon this basis. Every item thus becomes resolved into its proportionate expression "per hundred pounds of sales," and it is frequently found that a statement expressed in this way presents for purposes of comparison of cost a clearer view of the results attained than a Profit and Loss Account containing the actual figures. In some cases it may be preferable to take the cost of the goods as the standard of comparison.

Per Procuration (per pro) (*By procuration*).—The words *per pro* are commonly appended to the signature of a duly authorized agent when signing a document on behalf of his principal, the customary form being: *per pro* * A. Brown † C. Davies ‡. The use of the words *per pro* indicates that the agent has only a limited authority to sign. The principal is not bound by the acts of his agent if the agent exceeds the scope of his authority.

Personal Property.—One of the two great divisions into which English law divides property, the other being that of "real property." **Real Property** includes freehold houses and lands, and the law governing such property is, owing to legal conceptions dating back almost to feudal times, different in many respects from that governing the other class of property. **Personal Property** includes money, goods, leases, furniture, and other property of a similar kind.

Plaintiff.—A person who takes legal action against another person, termed the **Defendant.**

P/N = Promissory Note.

Policy.—A document expressing the obligation of an insurer to bear or sustain the loss or the damage arising out of the risk undertaken by him, or to pay a certain fixed sum upon the happening of a specified event. Marine, Life, and Sinking Fund Policies may commonly be assigned, but Fire Insurance Policies are, as a general rule, non-assignable. The annual or other periodical payment due under the terms of a Policy of insurance is called the **premium.**

Poll.—An appeal to the whole of the members of a given body of persons in order to ascertain the preponderance of opinion among them upon any particular question. In the case of general

* Or "p.p." † The principal ‡ The agent

meetings of joint stock companies the opinion of the meeting is usually taken by a show of hands; but persons who may be dissatisfied with the result of this method of voting may commonly demand that a "Poll" of all the members of the undertaking shall be taken. A demand for a Poll must be in writing, and due notice should be given to the shareholders of the date and place upon which the Poll will be held.

Post-dated Cheque.—A cheque drawn and signed upon a day antecedent to the date inserted in it. Post-dated Cheques are commonly given as acknowledgments for loans, between parties, although their execution amounts to a breach of the stamp laws.

Postponed Creditors (Deferred Creditors).—In bankruptcy the following creditors' claims are deferred or postponed until all other creditors' claims have been satisfied: 1. The lender of money to the bankrupt under a contract in writing to the effect that interest is to be paid on the loan at a rate of interest varying with the profits, or that a share of profits is payable to the lender in lieu of interest. (The object of the contract *in writing* is to afford proof that the lender, although thus sharing in profits, is not a partner.) 2. The seller of the goodwill of a business to the bankrupt in consideration of a share of profits. 3. Money entrusted by a wife to a husband for the purpose of any business carried on by him.

Preferential Creditors.—In bankruptcy, and also in the winding up of companies, the following creditors are entitled to payment of their claims in priority to all other creditors, viz. 1. Rates and taxes, subject to certain stipulations, for not exceeding one year. 2. The wages of any clerk, servant or workman in respect of services rendered during the four months immediately preceding the receiving (or winding-up) order, not exceeding £200. 3. Any sum ordered under the *Reinstatement in Civil Employment Act*, 1944, to be paid by way of compensation, or any accrued holiday remuneration due to persons enumerated in (2) above. Any such sums are included in the limit of £200 already mentioned. 4. Amounts due for compensation under the *Workmen's Compensation Act*, 1925, if the liability accrued before the date of the Receiving Order, subject, however, to any right to rank as a pre-preferential debt where the employer is insured against such claims. 5. All contributions payable by a bankrupt as an employer during the twelve months before the Receiving Order under the Unemployment and Health Insurance Acts. 6. (In bankruptcy only) Money held by the bankrupt, if an officer of a Friendly Society, by virtue of his office. 7. (In bankruptcy only) The claim preferred by or for an articled clerk to the bankrupt in regard to the unexpired portion of any premium paid by or for him to the bankrupt.

Premium.—See "Policy."

Presentment for Acceptance.—The presentment of a bill for acceptance to the party upon whom it is drawn. Where a bill is payable "after sight" presentment is necessary in order to fix the maturity of the instrument.

Press copy.—A copy of any document (written in copying ink), obtained upon a sheet of tissue paper by passing the document itself and the tissue paper through the copying press. Most mercantile documents of any importance, *e.g.* letters, invoices, etc., are copied; cheques, bills, and documents drafted by lawyers are not commonly copied. Press copying has long been superseded by carbon copying on the typewriter.

Primage (or **Hat Money**) is a gratuity payable to the master of a ship in recognition of careful navigation, etc. The term and practice are now, however, largely out of use, the charge for primage being merged in the charge for freight.

Private Company.—A limited liability company, formed under one of the Companies Acts, which: 1. Cannot consist of over 50 members (exclusive of employees). 2. Restricts the right to transfer its shares. 3. Is prohibited from making a public issue of its shares. Such a company may consist of two or more members. (See Chap. XVI, "Joint Stock Companies.") (See also "Exempt Private Company," p. 697.)

Probate.—The official proof of a will. (See "Administration.")

Profit.—The sum obtained by the employment of capital in productive enterprise after (1) paying all expenses of trading and (2) making any necessary provision for replacing capital lost.

Profits prior to incorporation.—If a company, incorporated at a given date, purchases a business as a going concern as from a date prior to the date of its incorporation, the proportion of such profits made prior to the date of incorporation are not profits available for distribution as dividend to the shareholders. A company cannot make profits prior to the date at which it comes into being, and any such accrued profits therefore which have been bought by it should be written off the purchase price of the goodwill, or placed to a capital reserve account, or be otherwise set aside in such a manner that they do not subsequently become divided among the members of the company.

Promoter.—A person who forms a joint stock company and sets it going. **Promotion** is not a term of law but of business, and includes a number of operations such as framing the prospectus, procuring the underwriting of the shares, and so on. A Promoter stands in a fiduciary relationship to the company which he is engaged in promoting, and may not derive profit out of the promotion without disclosing it to independent representatives of the company itself, and to the public (if the latter are asked to subscribe capital). The question as to who are and who are not the Promoters of any given company depends mainly upon the facts of each case.

Prospectus.—The document issued by or on behalf of a company by which it appeals to the public to subscribe for its shares or debentures. Various matters must legally be disclosed in a Prospectus in order that a prospective applicant may know the nature of the concern in which he is investing. (See *Companies Act*, 1948, SS. 41–46).

Proxy.—A person appointed to vote at a meeting on behalf of another person who would have been entitled to vote if he had been present. The instrument appointing a Proxy must ordinarily be in writing. Voting by Proxy is only permissible if allowed by the regulations of the body of which a meeting is to be held.

Quarter Days are as follows: *England*—March 25 (Lady Day), June 24 (Midsummer), September 29 (Michaelmas), and December 25 (Christmas). *Scotland*—February 2 (Candlemas), May 15 (Whitsunday), August 1 (Lammas), and November 11 (Martinmas).

Quorum.—The minimum number of members of any given body required to be present at any stated meeting or proceedings in order that the acts done or to be done may be valid. The Quorum requisite for members' and directors' meetings of bodies or com-

panies is usually prescribed by the regulations of the particular undertaking.

Rate of Exchange.—The price in the money of one country of the money of another country. The rates of exchange are published daily in *The Times* and other morning newspapers. These rates are market rates, and constantly vary according to the strength of the market demand for each currency. They represent the rates of Exchange actually prevailing on the day prior to the date of publication of the list of rates, and are not to be confused with the *mint pars of exchange* existing between the standard gold coins of gold standard countries, which are invariable, since they are based upon the amount of pure gold contained in the coins, as laid down by the currency laws of each country. It will be found from a perusal of the rates as given in the papers that there are two methods of quoting. In most cases the quotation states the amount of the foreign currency given for each £1 sterling; in a few cases the quotation represents the amount of British currency given for each unit of the foreign currency. Thus the currency of most European countries is quoted in the first way ; for example, 20.46½ Reichsmarks, or 34.89–90 Belgas, or 25.23¼–¾ Swiss Francs, or 92.70–80 Italian Lire for each £1; whereas the rate on Buenos Aires is quoted in the second way as so many pence to the dollar. The double quotation, as published in *The Times*, represents the limits of buyers' and sellers' prices, the highest and lowest rates at which the currencies changed hands, on the day prior to the date of publication of the list

Realized Profits.—Profits which have been converted into cash in hand, or otherwise reduced to a tangible form. *Example.*—If investments appreciate in value over and above their original cost the amount of such appreciation is an "unrealized" profit until the investments are sold, when it becomes a "realized" profit. It is usually unwise for a company to pay dividends out of unrealized profits; it is generally advisable to postpone the distribution of profits of this nature until such time as they have been realized, and even then, in many cases, to carry the profit to Reserve.

Rebate.—An allowance; in banking an allowance of interest (or discount) made to the party liable upon a bill previously discounted with a banker, upon the payment of the bill before its maturity.

Receipt.—See "Voucher."

Receiver.—A person appointed by the Court in an action, or by mortgagees in various cases to take possession of property, either for its preservation, or to collect the revenue arising from it.

Reconciliation Statement.—See Chapter IV, "The Cash Book."

Reconstruction.—A financial term expressing the reorganization or reconstruction of a joint stock company. A company frequently desires to obtain fresh funds from its members, but, owing to the fact that the shares of the company are fully paid, it is found to be impossible to impose an assessment upon its members directly. In such a case a Reconstruction usually ensues upon the following lines : 1. That the existing company shall sell its undertaking to a new company in exchange for a given number of *partly paid-up* shares in the new company, *e.g.* £1 *shares credited as* 17*s.* 6*d. paid.* 2. That such partly-paid-up shares in the new

company shall be distributed by the old company *pro rata* among its members. Members accepting these new shares in exchange for their holdings in the old company naturally become liable to pay up the liability on them (*e. g.* the 2*s.* 6*d.* per share unpaid in the case of the £1 share credited as 17*s.* 6*d.* per share mentioned above). 3. Members who are unwilling to pay the newly-imposed liability can refuse to accept the shares, and can serve a notice of dissent upon the company, requiring either that the scheme shall not proceed, or that their interest in the old company shall be redeemed. In practice it usually happens that the majority of companies which are unsuccessful prior to their reconstruction are equally unsuccessful afterwards; the additional capital afforded by a Reconstruction being usually inadequate. The right of "dissent" attaches indefeasibly to the holder of shares in a company which is about to be reconstructed, but its product, in the way of the price paid by the company to the dissentient for his interest, is frequently insignificant; a farthing a share is not an uncommon price in many cases.

Record Book.—The minute book kept by a trustee in bankruptcy proceedings, or by the liquidator in a compulsory winding up of a limited company.

Referee in Case of Need.—The drawer of a bill of exchange and any indorser may insert thereon the name of a person who, if the bill be dishonoured, will accept or pay it for the honour and on behalf of the person inserting the referee's name. Such a person is termed a "Referee in Case of Need."

Registered Office (of a company).—Every company incorporated under one of the Companies Acts is obliged to have a "registered office," the situation of which must be notified to the Registrar of Companies.

Remittance.—The sending of money; also applied to the sum of money which is sent or "remitted."

Reserve Liability.—A limited company may resolve that any portion of the uncalled liability on its shares shall only be capable of being called up in the event of the company being wound up. Such "Reserve Liability" then becomes incapable of being dealt with or mortgaged by the company during its life, and is preserved for the benefit of the creditors generally in the event of the company being subsequently wound up. Many leading banks have so resolved to "reserve" portions of their uncalled capital, the amount of which is usually large in comparison with the paid-up capital.

Royalty.—A money payment, in the nature of a rent, for the right of user of certain property. The commonest examples are (1) in connection with patents, where the patentor (for instance) grants to the patentee the right to use the patent in consideration for a certain sum (the royalty) per article manufactured or sold, and (2) in connection with books, where it is usual for the publisher to pay the author a royalty of so much per volume sold. Another important application of the term is in connection with the extraction of minerals, where a royalty per ton of output is payable to the ground landlord. The most important instance of this in Great Britain was formerly in respect of coal but since the coal mines came under national ownership royalties for the extraction of this particular mineral have no longer been payable; however, clay pits, gravel and slate quarries, etc., are still

in private ownership and may be the subject of royalties and the same book-keeping principles apply.

Rupee.—The standard silver coin of India. The Rupee weighs 180 grains (165 gs. fine silver and 15 gs. of alloy). The present exchange value of the Rupee is standardised at 18*d.* to the rupee. The contraction Rx. is used to denote 10 Rupees, a "**Lac**" of Rupees = 100,000, and a "**Crore**" of Rupees = 100 lacs. A Rupee consists of 16 annas, 64 pice, or 192 pie.

Salvage.—Compensation to those who have by their exertions saved a ship or cargo from maritime perils. The term is also used to denote the things so "salved" or "saved."

Sample.—A small quantity of goods or articles submitted by a seller to a possible or prospective purchaser in order that the latter may have knowledge of the nature of the goods or articles offered for sale.

Sans Recours.—A phrase which the indorser of a Bill may append to his indorsement. If this phrase is added to the indorsement, and the bill is dishonoured, the indorser "Sans Recours" cannot be sued upon it personally as is the case with an ordinary indorser.

Scrip.—A provisional certificate issued to an investor and subsequently exchanged for a definitive share certificate. The term is used generally, often somewhat loosely, to denote certificates representing investments. In Great Britain nearly all securities are either inscribed or registered. In America and on the Continent "bearer" bonds and shares are almost universal. (See Chap. XVI, "Joint Stock Companies.")

Seal.—A company incorporated under the Companies Acts must possess a common Seal, and this is characteristic of almost all incorporated companies. The common Seal is the official signature of the company; it is entrusted to the directors, and when affixed to a document it is usually attested by the signatures of the directors (or a prescribed number of them) present when it was affixed. Two or three locks are usually affixed to the Seal of a company, the key of one of which is retained by the secretary of the company, and the others remain in the possession of those directors who are detailed for the purpose. A document sealed and delivered by an *individual* is in law termed a "deed"; it is the highest form of written document known to English law. A document to which a *company's* seal is affixed usually amounts in law to a deed, but not in every case.

Seal Register.—A book, frequently kept by companies, recording brief details of the documents to which the common seal of the company has been attached.

Securities.—A term used to denote investments or the documents representing them.

Set off.—A counter claim.

Share Warrants to Bearer.—Share certificates issued by a company stating that *the bearer* of them is entitled to a stated number of shares in the company's capital. They pass from hand to hand without registration, or the need of any transfer deed, and are to this extent convenient; on the other hand, they cannot be replaced if lost, and they require to be stamped with stamp duty on three times the nominal value of the stock. The opportunities they offer for misuse for fraudulent purposes are also considerably greater than is the case with registered certificates.

Ship.—The ownership of a British Ship is by custom divided into 64 equal "shares," any number of which may be held by a particular owner.

Simple Contract.—An agreement made by word of mouth or embodied in a writing which is not under seal (*i.e.* not a "deed"). A contract or agreement of this description requires consideration to support it, but, if consideration be present, it is legally valid. Certain specified forms of Simple Contract require to be embodied in writing, or to be signed by one or more of the parties to them, but, apart from these special requirements, "Simple" Contracts may be either verbal or written. The phrase "**parol contracts**" is often used as a substitute for "Simple Contracts," and has the same significance; it does not refer (as the word "parol" would suggest) only to verbal contracts, but also to those which are written, but are not embodied in the shape of a deed.

Single Ship Company.—A joint stock company incorporated to acquire a single ship, as distinct from a fleet of ships.

Sinking Fund (commercially).—A sum set aside periodically out of the profits of a concern, and invested outside the business, in order to accumulate a certain sum at a given date for some specified purpose, *e.g.* the redemption of debentures. The interest arising out of the Sinking Fund investments is itself periodically reinvested and allowed to accumulate with the periodical contributions of principal. With regard to the borrowings of States and Municipalities the phrase "Sinking Fund" is applied to the periodical amounts applied either in paying off portions of the loan or in the purchase (for the purpose of cancellation) of the bonds or stock in the open market, thereby gradually extinguishing the indebtedness.

Slip.—A memorandum employed in marine insurance, issued by the underwriter, setting forth briefly the terms of the formal policy which is in course of preparation.

Specialty.—A contract by deed. (See "Deed.")

Statement.—An account rendered at stated intervals. The dates, particulars, and amounts of all goods delivered to the recipient of the Statement since the date of the last settlement are set out, together with any credits which may have accrued. The balance of the Statement shows the net amount due to date.

Statutes of Limitation.—A series of Acts, dating back to early days, wherein the period within which actions may be brought is fixed. (See "Limitation of Actions.")

Stocks.—See "Investments."

Stoppage in transitu.—An unpaid seller of goods has the right to stop them in transit, and to retain possession of them until they are paid for. Goods are deemed to be in transit until such time as the buyer or his agent has actually taken possession of them. The right exists only in cases where the buyer is insolvent.

Subpœna.—An order issued by a competent court directing the attendance of any specified person before the court, usually for the purpose of giving evidence.

Surety.—One who enters into a "bond" or "guarantee" on behalf of another.

Surrender Value.—The amount which will be paid by a life assurance company upon the surrender to it (for cancellation) of a policy issued by it. The regulations regarding the Surrender

Value of a given policy are frequently contained in the policy itself. The Surrender Value is commonly assessed at about one-third of the total amount of the premiums paid upon it, plus the cash value of any bonus additions should the policy be a "with profit" one. Life Policies can usually be sold by auction for slightly more than their Surrender Value. In arriving at the Surrender Value of a life policy the usual practice of the British companies is to strike one-third off the reserve value. These reserves are usually calculated upon a 3 per cent. basis, whereas, in the open market, reversions approximate more nearly to valuations based upon 4 to 5 per cent. interest, as a general rule. In the majority of cases no policy of life insurance carries any Surrender Value until the premiums for three complete years have been paid.

Talon.—The ticket or certificate attached to a bond entitling the holder of it to a further supply of interest coupons when those originally provided have all matured. (See "Coupon.")

Tare.—See Chap. XIV.

Taxation of Bills of Costs (Legal).—The examination by officers of the law courts of the Bills of costs rendered by solicitors to their clients or to their opponents in litigation. The "**Taxing Master**" (as the officer is called) has authority to disallow improper or incorrect charges.

Terms of Sale or Payment employed by traders are frequently expressed or contracted as follows: *C.I.F.* = cost, insurance and freight (meaning that the price quoted includes insurance and freight charges); *C.O.D.* = Cash on Delivery; *F.A.S.* = free alongside the ship; *F.O.B.* = free on board the ship; *Prompt Cash* means variously from 1 to 5 days credit; *5 per cent. within 1 month* indicates that if paid within one month a discount of 5 per cent. will be allowed.

Testator.—See "Will."

Tontine.—An annuity with benefit of survivorship among the subscribers or nominees. Not now met with in this country.

Treasury Bills.—Bills, usually payable at three or six months after their date, sold by the Treasury, usually by tender, in order to raise funds temporarily for the Government. They bear no interest, but are issued at a discount.

Trust, Trustee.—Where a person holds the ownership of property on behalf of another person the property is said to be held "in trust," and the holder of property "in trust" is termed a "Trustee."

Turnover.—A trader's total sales for a given period

Voucher.—A written acknowledgment or "receipt" for money paid: any documentary evidence put forward to support the accuracy of accounts. A receipt for an amount of £2 and over requires a 2*d.* stamp which must be cancelled by the giver of the receipt.

Warranty.—A guarantee or a stipulation in a contract. For example, a horse dealer warrants a horse to be sound and sells it for £75. The buyer afterwards finds that the animal is unsound. The buyer then has a right to damages for the breach of warranty. Suppose the buyer sells the horse for £50. He can then recover £25 from his seller. Breach of warranty does not entitle a buyer to reject the goods, but gives him a right to damages for the breach.

Waste Book.—A rough memorandum book in which, formerly, a trader's transactions were entered as they took place; the "Journal" was written up from the information afforded by the Waste Book. The book is scarcely ever met with now-a-days except in old-fashioned text-books. In banks, at the present day, the books in which the cashiers' receipts are classified for collection purposes (*e.g.* "town cheques," "country cheques," etc.) are sometimes termed **Waste books**; they are usually written up by clerks seated behind the receiving cashiers. The introduction of machine-accounting by banks is superseding the use of waste books, even in these institutions.

Watered Stock.—A phrase signifying the creation and issue of additional stock by a limited company which has already made issues of stock for cash, the additional stock being issued without any additional payment in cash, *e.g.* as a "bonus" to the existing share or stock holders.

Will.—The declaration of a testator's directions in regard to the disposal of his property after his decease. A will must be (1) in writing; (2) signed by the person making it; (3) witnessed by two persons present at the same time as the testator when he signs.

CHAPTER XXVIII

SUPPLEMENTARY EXERCISES

CHAPTER I

Exercise 1E.—From the following list of transactions write up the Ledger, preparing Trading and Profit and Loss Accounts, and a Balance Sheet on their conclusion. *Transactions of Herbert Myers.* Sept. 1, started business with cash £50; Sept. 2, paid cash for goods purchased at an auction £30; Sept. 6, bought from Brown & Co. goods on credit £60; Sept. 7, sold goods for cash £25; Sept. 8, paid expenses in cash £5; Sept. 9, sold goods to Rogers & Co. on credit £50; Sept. 14, received from Rogers & Co. cash on account £40. *Note :* Stock of goods in hand at Sept. 14 was valued at £40.—*Answer,* Net Profit £20; Final Capital £70.

Exercise 1F.—Enter the following transactions in a Ledger, preparing Trading and Profit and Loss Accounts, and a Balance Sheet at their conclusion. *Transactions of A. Miles.* Oct. 1, started business with cash £50, stock of goods £100, and owing to Holmes Bros. £45; Oct. 3, bought from Holmes Bros. goods on credit £30; Oct. 4, sold for cash goods £45; Oct. 5, paid in cash salaries £5, office expenses £3 10*s.*; Oct. 6, sold to Ray & Hill on credit goods £60; Oct. 10, bought goods for cash £10; Oct. 11, received from Ray & Hill in cash £60; Oct. 12, paid to Holmes Bros. on account cash £50. *Note :* the stock of goods in hand on Oct. 12 was valued at £60.—*Answer,* Net Profit £16 10*s.*; Final Capital £121 10*s.*

Exercise 1G.—Enter the following transactions in a Ledger, preparing therefrom a Trial Balance, a Trading Account, a Profit and Loss Account, and a Balance Sheet. *The transactions of Charles Robbins were as follows :*—Jan. 2, started in business as a sugar merchant with £500 cash; Jan. 3, bought a consignment of sugar from Roy & Co. on credit £550, paid them in cash on account £275; Jan. 6, paid in cash sundry office expenses £10; Jan. 9, sold half the sugar bought from Roy & Co. on Jan. 3 at auction for £305 cash; Jan. 10, sold the remainder of the sugar bought from Roy & Co. to Charles Hay on credit for £325; received from C. Hay £175 cash on account; Jan. 14, paid, in cash, landing and warehouse charges on the sugar bought from Roy & Co. £15; Jan. 18, paid Roy & Co. balance due to them £275.—*Answer,* Net Profit £55; Final Capital £555.

Exercise 1H.—Enter the following transactions in a Ledger, preparing Trading and Profit and Loss Accounts, and a Balance Sheet at their conclusion. *Transactions of John Wild.* Nov. 1, started in business as a cycle dealer; Nov. 2, bought on credit

from the Everwear Manufacturing Co., Ltd., 10 "Express" bicycles at £5 10*s.* each; Nov. 3, sold for cash 1 Express bicycle £6 16*s.* 6*d.*; Nov. 4, sold to R. Hay on credit 2 Express bicycles at £7 7*s.* each; Nov. 5, sold for cash 2 Express bicycles at £6 18*s.* 6*d.* each; Nov. 7, paid cash for expenses £2 13*s.*; Nov. 8, paid cash for advertisement in local paper £1; Nov. 9, sold to W. Mear on credit 3 Express bicycles at £7 each; Nov. 10, received cash from R. Hay £14 14*s.*; Nov. 11, received cash from W. Mear on account £15; Nov. 12, paid the Everwear Mfg. Co., Ltd., cash on account £25. *Note :* Value the 2 bicycles remaining on hand on Nov. 12 at cost price, viz. £5 10*s.* each.—*Answer*, Net Profit £8 14*s.* 6*d.*; Final Capital £8 14*s.* 6*d.*

CHAPTER III

Exercise 3E.—From the following Balance Sheet open a new Ledger :—

BALANCE SHEET.

December 31, 19—.

LIABILITIES.		£	ASSETS.		£
J Frost	Sundry Creditors	151	Cash		45
T. Wilson		49	Bank		150
R. Ford		75	T. Wells	Sundry Debtors	215
Capital		670	S. Reeves		96
			Stock		439
		£945			£945

(*Auctioneers' Institute of the U.K.; Preliminary.*)

Exercise 3F.—From the following transactions make out F. Pearson's account :—Oct. 1, I owe F. Pearson £257; Oct. 4, I pay £200; Oct. 5, he sells me goods £43; Oct. 7, I sell him goods £38; Oct. 10, I buy goods of him £71; Oct. 14, he buys goods of me £62; Oct. 16, he sells me goods £29; Oct. 17, he returns goods £6; Oct. 25, I buy goods of him £96; Oct. 27, I sell goods to him £400; Oct. 28, he pays me cash £150; I receive bill from him (*credit F. Pearson*) £250; Oct. 31, he buys goods of me £18. (*Auctioneers' Institute of the U.K.; Preliminary.*)—*Answer.* Credit Balance of Account £184.

Exercise 3G.—On Dec. 1, H. Lloyd commenced business with a capital of £500 in cash. On this date he paid the following sums :—Shop fittings £50, purchase of goods £200, one quarter's rent in advance £20. Open the necessary Ledger accounts to record the above; post the following transactions direct to the Ledger; balance the accounts as on December 31, and bring down the balances :—Dec. 2, sold goods to W. Hunt £140; Dec. 4, purchased goods from R. Johnson £20; Dec. 11, purchased goods from H. Hall £150; Dec. 16, sold goods to E. Jones for cash £20; Dec. 20, sold goods to W. Silver £50; Dec. 21, received from W. Hunt cash on account £10; Dec. 22, paid R. Johnson's account, less 5 per cent. discount. (*Royal Society of Arts ; Elementary.*)—*Answer.* Cash Balance £241; Credit Purchases £170; Credit Sales £190.

Exercise 3H.—Enter the following transactions in Charles Harris's Ledger, and prepare a Trial Balance upon their completion :—Dec. 1, started in business as a motor-car dealer with £500 cash; Dec. 2, bought from Gremaud et Rousselet one "Gloria" 30 h.p. No. 35*a* car on credit for £605; Dec. 3, sold to R. Stevens one "Gloria" 30 h.p. car for cash £650; Dec. 5, paid in cash freight, shipping, and landing charges on "Gloria" car £6 16*s.* 8*d.*; Dec. 7, paid Gremaud et Rousselet cash £605; Dec. 9, bought from Holmes & Raeburn, Ltd., two 20 h.p. No. 18 cars on credit at £325 each; Dec. 10, sold to Sir O. Glendower one "Holmes & Raeburn" 30 h.p. No. 18 car for cash £375. Dec.12, sold to Mrs. Claude Crawley one "Holmes & Raeburn" 20 h.p. No. 18 car on credit £390; Dec. 13, Paid Holmes & Raeburn cash £325; Dec. 16, paid in cash freight, shipping, and landing charges on two "Holmes & Raeburn" cars £12 2*s.* 8*d.*; Dec. 20, paid in cash expenses £5.—*Answer.* Trial Balance Totals £2,240.

Exercise 3I.—On Sept. 1, I had cash at the Bank £1,200, and C. Jones owed me £800, my capital being thus £2,000. On Sept. 2 I bought from Hall Bros. a quantity of iron ore for £3,500, less 10 per cent. Trade Discount, paying them £1,000 by cheque on account; on Sept. 3 I paid by cheque landing and storage charges on the iron ore £65, and the same day I sold half the ore for £1,850 by auction, receiving a cheque for that amount and banking it. On Sept. 6 I sold a further quantity of iron ore to Jebb & Co. for £1,200, less 10 per cent. Trade Discount, and 5 per cent. Discount for cash, Jebb & Co. handing me their cheque the same day; this cheque was paid by me into my bank. On Sept. 8 I sold the remainder of the iron ore to Wild & Co. for £1,000, less 7½ per cent. Trade Discount, payment for same to be made one month after delivery; on Sept. 10 I paid Hall Bros., by cheque, further on account £1,000; C. Jones paid me, by cheque, £700 on Sept. 10 which I paid into my bank ; on Sept. 12 I drew a cheque for sundry expenses £20. Write up my Ledger and prepare Profit and Loss Account and Balance Sheet.—*Answer.* Net Profit £566; Final Capital £2,566.

Exercise 3J.—From the following particulars write up C. Ridgway's account in my Ledger :—Dec. 1, C. Ridgway owes me £10; Dec. 2, I sell C. Ridgway goods on credit £30; Dec. 3, C. Ridgway pays me in cash £5; Dec. 5, C. Ridgway sells goods to me on credit £6; Dec. 6, received cash from C. Ridgway £28; I allow C. Ridgway discount £1; Dec. 7, C. Ridgway buys goods of me on credit £10; Dec. 8, I buy goods of C. Ridgway on credit £50; Dec. 9, I pay cash to C. Ridgway £39; C. Ridgway allows me discount £1; Dec. 10, I sell C. Ridgway goods on credit £25.—*Answer.* Debit Balance of Account £25.

CHAPTER IV

Exercise 4E.—Make out a Cash Account :—Jan. 1, capital in cash £500; Jan. 7, cash sales £50; Jan. 12, sold goods for cash £19 1*s.*; bought goods for cash £47 2*s.*; Jan. 18, H. Long pays me £63 5*s.*; Jan. 20, I pay F. Smedley £329; Jan. 23, I pay W. Thomas £137 0*s.* 10*d.*; Jan. 25, I draw for private expenses £10; Jan. 27, I receive from R. Judson £37 5*s.*; Jan. 29, sold goods for cash £47 2*s.*; Jan. 31, F. Smith pays me £8 5*s.*; Jan. 31, paid

wages £10; Jan. 31, paid trade charges £4 7*s*. 6*d*.; Jan. 31, paid rent £15. (*Auctioneers' Institute of the U.K.; Preliminary.*)—*Answer.* Cash Balance £172 7*s*. 8*d*.

Exercise 4F.—From the following particulars write up my Cash Book, with separate columns for "Bank" and "Cash" transactions, and balance it as on Dec. 15:—Dec. 1, Balance at Bank £100; drew from bank for office cash £5; Dec. 2, paid by cheque to C. Lemon & Co. £12 10*s*.; Dec. 3, received from V. Charteris by cheque (paid to bank) £10 10*s*. and in cash (placed in office cash) £20; Dec. 5. paid from office cash for travelling expenses £2; Dec. 6, paid from office cash for clerks' salaries £8; Dec. 7, paid from office cash into bank £10; Dec. 8, received from C. Child by cheque (paid to bank) £30 10*s*. and in banknotes (paid to bank) £25; Dec. 9, paid H. Smith (by cheque £5, and in cash £1 5*s*.) £6 5*s*.; Dec. 10, received from S. Cunningham cheque for sundry goods sold by him at auction on my behalf, paid same to bank £32 5*s*.; Dec. 12, paid by cheque to R. Leslie for repairs to office furniture £2 10*s*.; Dec.13, paid Evans (by cheque £6 10*s*., in cash £1) £7 10*s*.; Dec. 14, drew from bank for office cash £5; paid W. Douglas, by cheque, on account £12 10*s*.; Dec. 15, received from Noel & Co. by cheque £15 10*s*. (paid to bank) and in cash £5 (placed in office cash).—*Answer.* Balances Dec. 15: Bank £174 15*s*.; Cash £12 15*s*.

Exercise 4G.—Enter in a Cash Book, with Discount Columns the following transactions of a business firm. Then balance Cash and Discount. No Journal required:—Jan. 1, the firm has in hand £179 15*s*. 4*d*.; Jan. 2, cash sales for the day £13 11*s*. 9*d*.; Jan. 5, pay for office expenses £3 7*s*. 11*d*.; Jan. 12, T. Wyld settles his a/c £82 4*s*., less discount allowed £1 2*s*. 9*d*.; Jan. 15, discounted with Fry & Co. bills amounting to £250, less discount charged £3 10*s*.; Sundry cash purchases £5 6*s*. 7*d*.; Jan. 16, my acceptance due this day duly met £36 2*s*. 9*d*.; Jan. 18, forwarded to S. Williams the amount of his a/c £300, less discount allowed £7 10*s*.; Jan. 20, a composition of 12*s*. 6*d*. in the £ is made by Philips, I receive my dividend on £64, £40; Jan. 25, various amounts paid in by debtors £27 15*s*. 9*d*., less discount allowed £1 7*s*. 9*d*.; withdrew for private expenses £10; Jan. 26, I discharge debts to creditors £17 10*s*. and am allowed a rebate of 5 per cent.; Jan. 27, Wilson & Co., in settlement of debt of £150, pay this sum to me, less discount £2 10*s*.; Jan. 30, amount forwarded by collector: R. Brown's a/c £15 19*s*. 9*d*., T. Smith's a/c £16 17*s*. 4*d*., Pinnock & Co.'s a/c £14 13*s*. 3*d*., less collector's expenses £4 7*s*. 9*d*.; monthly expenses paid £13 18*s*. 9*d*.; salaries paid £18 14*s*. 3*d*.; received rent for part of premises let £4 15*s*.; monthly rent and taxes paid amounting to £14 17*s*. 4*d*. (*College of Preceptors; Junior.*)—*Answer.* Cash Balance £371 3*s*. 10*d*.; Discount allowed £5 0*s*. 6*d*.; Discount received £8 7*s*. 6*d*.

Exercise 4H.—Messrs. Brown, Jones and Robinson keep their Cash Book with a "Discount and Allowances" Column on each side (Debit and Credit), and they pass all their cash transactions through the bank, their Cash Book thus being (as it should be) an elaboration of their Bank Pass Book. Give the ruling of their Cash Book, and enter up therein the following illustrative transactions:—Jan. 1, balance at bank brought down at date

£137 19*s.* 7*d.*; withdrawn from Deposit Account and paid into Current Account £500; Jan. 3, paid Edward Smith's account amounting to £400, less 2½ per cent. discount for cash; paid Gresham Land Company one quarter's rent of offices £50; Jan. 15, received from William Thompson payment of his monthly account, less 1¼ per cent. discount for cash, £120; March 2, Henry Marston, who owes £5 10*s.* 4*d.* remits a cheque in settlement for £5 10*s.*, write off the difference 4*d.*; April 1, Paid Gresham Land Company one quarter's rent, less income tax at 1*s.* 2*d.* in the £1, on the annual rental (£200) £50; June 30, rule up the Cash Book and bring down the Bank Cash Balance at July 1. (*Institute of Bankers; Preliminary.*)—*Answer.* Cash Book Balance £283 12*s.* 11*d.*; Discount allowed £1 10*s.* 4*d.*; Discount received £10.

Exercise 4I.—Make the following entries in John Smith's Cash Book, showing in each case the Ledger heading to which the respective items are posted :—Jan. 1, balance to his credit at the bank £1,216 7*s.* 4*d.*; paid Lands Co., Ltd., one quarter's office rent, Cheque 160, £75; received half-year's dividend £2,000 Queensland 3½ per cent. Inscribed Stock, less tax at 1*s.* £33 5*s.*; Jan. 3, Bank Cheque Book, 200 cheques, 16*s.* 8*d.*; paid Thomas Beall income tax, Cheque 161, £92 10*s.*; received payment of William Morrish's account £102 10*s.*; Jan. 4, paid Theophilus Simpson on account, Cheque 162, £100; Jan. 5, received from Arthur Jones for cash sale over the counter of 1 chest new season's Souchong tea, weighing net 126 lb., at 3*s.* per lb., £18 18*s.* Show also how these items are entered by the bank in John Smith's Pass Book, noting that Cheque 161 for £92 10*s.* has not yet been presented.

The bank Pass Book is headed :—

John Smith, Esq., in Account with the Bullion Bank, Ltd.

Dr. *Cr.*

At the same time bring down the cash balances respectively appearing in each book (Cash Book and Pass Book) after the above entries have been duly made, remembering that in the case of the bank Pass Book Cheque 161 for £92 10*s.* is still outstanding, and is therefore not yet debited in the Pass Book. (*Institute of Bankers; Final.*)—*Answer.* Cash Book Balance £1,102 13*s.* 8*d.*; Pass Book Balance £1,195 3*s.* 8*d.*

Exercise 4J.—At Dec. 31, Edward Jones' Bank Balance, by his Pass Book, stood at £857 10*s.* 6*d.* to his credit; the following cheques, however, drawn by him had not been presented, and were consequently outstanding on Dec. 31 :—No. 1769, William Thompson and Co., £204 6*s.* 8*d.*; No. 1772, Elihu Bowen, £125; No. 1773, Samuel Edwards, £15; while on the other hand, of the cheques paid in by him on that day, £350 8*s.* 9*d.* (a country one) had not been cleared, and therefore was not credited till some days after. Draw up a Reconciliation Account between Edward Jones' Bank Pass Book and his Cash Book, and state what his actual Cash Balance, as shown by his Cash Book, was at Dec. 31. (*Institute of Bankers; Preliminary.*)—*Answer.* Cash Book Balance £863 12*s.* 7*d.*

Exercise 4K.—At the time of balancing (Dec. 31) your Banking Account has been written up and balanced, showing a Credit Balance of £500, but cheques passed for payment before that date,

amounting to £250, have not been cleared. On Dec. 31, you had also received a cheque for £20 from a customer in settlement of his account, and although you had dealt with that amount through your office Cash Book, you had omitted to pay the same into your Banking Account. Draw up a Reconciliation Account showing adjustments between your Cash Book and Bank Pass Book. (*National Union of Teachers ; Advanced.*)—*Answer.* Cash Book Balance £270.

Exercise 4L.—From the following particulars write up the Petty Cash Book of Albert Child and bring down the balance on Sept. 14. The Petty Cash Book is to be ruled containing analysis columns for (1) postages and telegrams, (2) housekeeper, fires and cleaning, (3) stationery and office sundries, (4) travelling expenses, (5) charitable donations, (6) subscriptions to newspapers and advertisements, (7) sundries, and (8) the usual "Ledger" columns :—Sept. 1, drew from bank for petty cash £30; Sept. 2, paid for postages 3*s.*, 2 bottles of ink 2*s.* 6*d.*, stationery bought 2*s.* 9*d.*; Sept. 3, paid for telegram to Dublin 2*s.* 2*d.*, postages 1*s.*, subscription to the "Market Journal" 12*s.* 6*d.*; Sept. 5, paid for postages 6*d.*, repairs to copying press (debit Repairs Account) 2*s.* 6*d.*; Sept. 6, paid for travelling expenses to Dover and back 18*s.* 6*d.*, postages 1*s.*, cost of search at Somerset House 1*s.*, gratuity to porter 6*d.*; Sept. 7, paid donation to the "Cottage Homes Fund" 2*s.* 6*d.*, postage 2*s.* 6*d.*, cost of boxes for samples 5*s.* 6*d.*; Sept. 8, paid for cablegram to New York 15*s.*, housekeeper, fires and cleaning to date £1 2*s.* 9*d.*, travelling expenses 1*s.* 4*d.*; Sept. 9, paid for 1 copy "Trades Directory" £2 2*s.* (debit General Expenses Account); paid D. Reay, extra discount allowed him (debit Discount Account), £1 2*s.* 6*d.*, postages 2*s.* 9*d.*, electric light account to Aug. 31 (debit General Expenses Account) £1 9*s.* 8*d.*; Sept. 10, paid for stamp on power of attorney for bank (debit Legal Expenses Account) 10*s.*, paid for telegram to Brighton and reply 3*s.* 6*d.*; Sept. 12, paid for cost of standing advertisement in the *Speaker* for 1 month £1, omnibus fares to Victoria Station and back 4*d.*, telegrams 1*s.*, postages 8*d.*; Sept. 13, paid for porter's wages to date (2 weeks at 23*s.*) £2 6*s.* (debit Wages Account); Sept. 14, paid commissioner's fee for attesting an affidavit 1/6 (debit Legal Expenses), postages 1*s.*, telegrams 2*s.* 6*d.*, bottle of gum for office use 8*d.*, 1 gross office pens 4*s.* 6*d.*—*Answer.* Balance £15 13*s.* 11*d.*

Exercise 4M.—From the following particulars write up my Cash Book and Ledger, bringing down the balances of all accounts at their conclusion:—Nov. 1, balance of cash at bank £100, cash in hand £20 = capital £120; Nov. 2, lent M. Wyse by cheque £5; Nov. 3, paid cash into bank £15; Nov. 10, paid by cheque rent of office for 1 quarter £20; Nov. 11, received cheque from Brown & Co. for fee for auditing their books (paid same to bank) £50; Nov. 19, M. Wyse repaid in cash £2; Nov. 21, paid cash for stationery purchased £1; Nov. 26 M. Wyse repaid in cash £3; Nov. 30, paid by cheque clerk's salary for 1 month £10; Nov. 30, received cheque from Holmes Bros. for professional work done for them (paid same to bank) £21.—*Answer.* Balances: Cash £9; Bank £151.

Exercise 4N.—From the following particulars prepare the

£137 19*s*. 7*d*.; withdrawn from Deposit Account and paid into Current Account £500; Jan. 3, paid Edward Smith's account amounting to £400, less 2½ per cent. discount for cash; paid Gresham Land Company one quarter's rent of offices £50; Jan. 15, received from William Thompson payment of his monthly account, less 1¼ per cent. discount for cash, £120; March 2, Henry Marston, who owes £5 10*s*. 4*d*. remits a cheque in settlement for £5 10*s*., write off the difference 4*d*.; April 1, Paid Gresham Land Company one quarter's rent, less income tax at 1*s*. 2*d*. in the £1, on the annual rental (£200) £50; June 30, rule up the Cash Book and bring down the Bank Cash Balance at July 1. (*Institute of Bankers; Preliminary.*)—*Answer.* Cash Book Balance £283 12*s*. 11*d*.; Discount allowed £1 10*s*. 4*d*.; Discount received £10.

Exercise 4I.—Make the following entries in John Smith's Cash Book, showing in each case the Ledger heading to which the respective items are posted :—Jan. 1, balance to his credit at the bank £1,216 7*s*. 4*d*.; paid Lands Co., Ltd., one quarter's office rent, Cheque 160, £75; received half-year's dividend £2,000 Queensland 3½ per cent. Inscribed Stock, less tax at 1*s*. £33 5*s*.; Jan. 3, Bank Cheque Book, 200 cheques, 16*s*. 8*d*.; paid Thomas Beall income tax, Cheque 161, £92 10*s*.; received payment of William Morrish's account £102 10*s*.; Jan. 4, paid Theophilus Simpson on account, Cheque 162, £100; Jan. 5, received from Arthur Jones for cash sale over the counter of 1 chest new season's Souchong tea, weighing net 126 lb., at 3*s*. per lb., £18 18*s*. Show also how these items are entered by the bank in John Smith's Pass Book, noting that Cheque 161 for £92 10*s*. has not yet been presented.

The bank Pass Book is headed :—

John Smith, Esq., in Account with the Bullion Bank, Ltd.

Dr. *Cr.*

At the same time bring down the cash balances respectively appearing in each book (Cash Book and Pass Book) after the above entries have been duly made, remembering that in the case of the bank Pass Book Cheque 161 for £92 10*s*. is still outstanding, and is therefore not yet debited in the Pass Book. (*Institute of Bankers; Final.*)—*Answer.* Cash Book Balance £1,102 13*s*. 8*d*.; Pass Book Balance £1,195 3*s*. 8*d*.

Exercise 4J.—At Dec. 31, Edward Jones' Bank Balance, by his Pass Book, stood at £857 10*s*. 6*d*. to his credit; the following cheques, however, drawn by him had not been presented, and were consequently outstanding on Dec. 31 :—No. 1769, William Thompson and Co., £204 6*s*. 8*d*.; No. 1772, Elihu Bowen, £125; No. 1773, Samuel Edwards, £15; while on the other hand, of the cheques paid in by him on that day, £350 8*s*. 9*d*. (a country one) had not been cleared, and therefore was not credited till some days after. Draw up a Reconciliation Account between Edward Jones' Bank Pass Book and his Cash Book, and state what his actual Cash Balance, as shown by his Cash Book, was at Dec. 31. (*Institute of Bankers; Preliminary.*)—*Answer.* Cash Book Balance £863 12*s*. 7*d*.

Exercise 4K.—At the time of balancing (Dec. 31) your Banking Account has been written up and balanced, showing a Credit Balance of £500, but cheques passed for payment before that date,

amounting to £250, have not been cleared. On Dec. 31, you had also received a cheque for £20 from a customer in settlement of his account, and although you had dealt with that amount through your office Cash Book, you had omitted to pay the same into your Banking Account. Draw up a Reconciliation Account showing adjustments between your Cash Book and Bank Pass Book. (*National Union of Teachers ; Advanced.*)—*Answer.* Cash Book Balance £270.

Exercise 4L.—From the following particulars write up the Petty Cash Book of Albert Child and bring down the balance on Sept. 14. The Petty Cash Book is to be ruled containing analysis columns for (1) postages and telegrams, (2) housekeeper, fires and cleaning, (3) stationery and office sundries, (4) travelling expenses, (5) charitable donations, (6) subscriptions to newspapers and advertisements, (7) sundries, and (8) the usual "Ledger" columns :—Sept. 1, drew from bank for petty cash £30; Sept. 2, paid for postages 3*s*., 2 bottles of ink 2*s*. 6*d*., stationery bought 2*s*. 9*d*.; Sept. 3, paid for telegram to Dublin 2*s*. 2*d*., postages 1*s*., subscription to the "Market Journal" 12*s*. 6*d*.; Sept. 5, paid for postages 6*d*., repairs to copying press (debit Repairs Account) 2*s*. 6*d*.; Sept. 6, paid for travelling expenses to Dover and back 18*s*. 6*d*., postages 1*s*., cost of search at Somerset House 1*s*., gratuity to porter 6*d*.; Sept. 7, paid donation to the "Cottage Homes Fund" 2*s*. 6*d*., postage 2*s*. 6*d*., cost of boxes for samples 5*s*. 6*d*.; Sept. 8, paid for cablegram to New York 15*s*., housekeeper, fires and cleaning to date £1 2*s*. 9*d*., travelling expenses 1*s*. 4*d*.; Sept. 9, paid for 1 copy "Trades Directory" £2 2*s*. (debit General Expenses Account); paid D. Reay, extra discount allowed him (debit Discount Account), £1 2*s*. 6*d*., postages 2*s*. 9*d*., electric light account to Aug. 31 (debit General Expenses Account) £1 9*s*. 8*d*.; Sept. 10, paid for stamp on power of attorney for bank (debit Legal Expenses Account) 10*s*., paid for telegram to Brighton and reply 3*s*. 6*d*.; Sept. 12, paid for cost of standing advertisement in the *Speaker* for 1 month £1, omnibus fares to Victoria Station and back 4*d*., telegrams 1*s*., postages 8*d*.; Sept. 13, paid for porter's wages to date (2 weeks at 23*s*.) £2 6*s*. (debit Wages Account); Sept. 14, paid commissioner's fee for attesting an affidavit 1/6 (debit Legal Expenses), postages 1*s*., telegrams 2*s*. 6*d*., bottle of gum for office use 8*d*., 1 gross office pens 4*s*. 6*d*.—*Answer.* Balance £15 13*s*. 11*d*.

Exercise 4M.—From the following particulars write up my Cash Book and Ledger, bringing down the balances of all accounts at their conclusion:—Nov. 1, balance of cash at bank £100, cash in hand £20 = capital £120; Nov. 2, lent M. Wyse by cheque £5; Nov. 3, paid cash into bank £15; Nov. 10, paid by cheque rent of office for 1 quarter £20; Nov. 11, received cheque from Brown & Co. for fee for auditing their books (paid same to bank) £50; Nov. 19, M. Wyse repaid in cash £2; Nov. 21, paid cash for stationery purchased £1; Nov. 26 M. Wyse repaid in cash £3; Nov. 30, paid by cheque clerk's salary for 1 month £10; Nov. 30, received cheque from Holmes Bros. for professional work done for them (paid same to bank) £21.—*Answer.* Balances: Cash £9; Bank £151.

Exercise 4N.—From the following particulars prepare the

Petty Cash Book of S. Fry, including analysis columns for the following classes of expenditure, viz. (1) Postage, (2) Telegrams and Cables. (3) Housekeeping and Cleaning, (4) Stationery, (5) Electric Light, including bulbs, (6) Advertisements, Donations, and Subscriptions, (7) Travelling Expenses, (8) Repairs, (9) Sundries, and (10) a "Ledger" column. Balance the Petty Cash Book as on Feb. 16. Feb. 1, Drew from the Bank for petty cash purposes £30; Feb. 2, paid postage 1*s.* 10*d.*, and telegrams 3*s.* 6*d.*; Feb. 3, paid fares 1*s.* 2*d.*, postage 1*s.* 6*d.*, and telegrams 6*d.*; Feb. 4, paid postage 3*s.* 6*d.*; Feb. 5, paid postage 10*d.*, and housekeeper and cleaning £1 2*s.* 9*d.*; Feb. 7, paid postage 1*s.* 2*d.*, and electric light bulbs 6*s.* 2*d.*, Feb. 8, paid telegrams 1*s.* 5*d.*, repairs to electric bells 6*s.* 9*d.*, postages 2*s.* 3*d.*, and ink 6*d.*; Feb. 9, paid cost of new coal-scuttle 8*s.* 9*d.* (debit Furniture Account in "Ledger" column), and postages 1*s.*; Feb. 10, paid postage 2*s.* 4*d.*, stationery 6*s.* 9*d.*, and fares to Woolwich, 3*s.* 4*d.*, cost of advertisement in *Post Office London Directory* £1 10*s.*, cost of standing advertisement in *Feathered World* £4 10*s.*; Feb. 11, paid telegrams 1*s.* 4*d.*, and postage 3*s.* 9*d.*; cost of repainting name on office door 10*s.* 6*d.*, fares to Ludgate Circus 4*d.*, and cost of two dozen boxes for samples 4*s.* 2*d.*; Feb. 12, paid postage 1*s.* 9*d.*, and telegrams 2*s.* 9*d.*, cost of cable message to Fry & Lewisohn, New York £1 2*s.*; Feb. 14, paid donation to the Central Trade Protection Association 5*s.*, and postage 1*s.* 9*d.*, housekeeper's book and cleaning to Feb. 12, £1 7*s.* 3*d.*, cost of new electric light bulbs 4*s.* 2*d.*; Feb. 16, paid telegrams 1*s.* 3*d.*, postage 3*s.* 6*d.*, and cost of cable message to Fry & Lewisohn £1 3*s.*, fares to Chiswick 2*s.* 4*d.*—*Answer.* Balance of cash in hand, Feb. 16, £14 9*s.* 2*d.*

Exercise 4o—W. Rutherford is a trader who keeps the whole of his cash with his Bankers, the National Provincial Bank, Ltd. He pays all his receipts into his Banking Account, and makes all his payments by cheque. The following are his transactions for the month of February:—Write up Cash Book, and balance it as on Feb. 28, 19—. Feb. 1, Balance at the Bank at this date £104 13*s.* 2*d.*; Feb. 3, received from M. Strain cash £4 10*s.* 9*d.*; Feb. 5, received from Shaw & Co. cheque £32 6*s.* 4*d.*; Feb. 8, paid by cheque to W. B. Shields £19 2*s.* 11*d.*; Feb. 10, received from Stratton Bros. cash £2 and postal order 3*s.* 6*d.*, £2 3*s.* 6*d.*; Feb. 11, drew cheque in favour of M. Shillington £4 9*s.*; drew cheque for gas bill in favour of Westchurch Gas Company £3 17*s.* 11*d.*; Feb. 14, received from the Eastern Supply Stores, Ltd., their cheque £62 19*s.* 8*d.*; Feb. 17, paid by cheque to J. Webb £21 3*s.* 6*d.*; Feb. 19, received from the Great Eastern Railway Co. their cheque for compensation for goods damaged in transit £4 9*s.* 6*d.*; Feb. 23, received from McKeown and McAusland by cheque £17 14*s.* 2*d.*; drew cheque in favour of V. Turtle, collector of rates £8 0*s.* 4*d.*; Lent M. Meacher by cheque £5; Feb. 26, received from William Sloan, cash £4 10*s.* 9*d.* and cheque £10, £14 10*s.* 9*d.* ; Feb. 28, paid by cheque M. Wilson, collector of taxes, for income-tax £6 19*s.* 3*d.*; M. Meacher repaid to me in cash £5; received from J. W. Reade, money order £1 10*s.* 9*d.* and bank note £5, £6 10*s.* 9*d.*; paid by cheque salaries for February £10 5*s.*—*Answer.* Bank Balance, Feb. 28, £176 0*s.* 8*d.*

Exercise 4p.—B. Rackett is a trader who keeps part of his cash at his Bankers and part in his office cash box. Most of his trans-

actions involve discount, to record which he employs discount columns in his Cash Book. From the following particulars prepare his Cash Book in "three-column" form, and balance it at the end of the month, and total the discount columns. Oct. 1, Balances in hand, cash £7 0*s*. 4*d*., at Bank £872 16*s*. 3*d*.; Oct. 2, paid to B. Nett by Cheque £213 5*s*., discount £11 15*s*.; Oct. 4, received from C. Lott cheque for £39, allowing him £1 discount; Oct. 5, paid water rate in cash £3 11*s*. 3*d*., paid carpenter for odd jobs 11*s*. 6*d*., paid woman for cleaning office 5*s*. 6*d*.; Oct. 6, drew £10 from Bank and placed it in the office cash box; Oct. 7, paid D. Sett from office cash £2 5*s*. 4*d*., being allowed discount 2*s*. 2*d*.; Oct. 9, received from E. Lyne cash, and put it in the cash box £15 7*s*. 2*d*., discount 12*s*. 10*d*.; Oct. 14, paid to F. Ascourt, cheque value £363 17*s*. 4*d*., discount £6 2*s*. 8*d*.; Oct. 17, received cheque from Doherty Bros. £22 16*s*., discount £1 4*s*.; Oct. 25, paid cheque to F. Handel £10 19*s*. 2*d*. net; Oct. 26, bought goods for cash (paid for out of cash box) £3 13*s*. 7*d*., paid fire insurance premium in cash 6*s*. 3*d*.; Oct. 31, drew cheque for office salaries £10 12*s*. 6*d*., paid into Bank from office cash £15, drew cheque for self, for house-keeping £25.—*Answer*. Balances, Bank £315 18*s*. 3*d*. Cash £6 14*s*. 1*d*.; Discounts: Dr. £2 16*s*. 10*d*., Cr. £17 19*s*. 10*d*.

Exercise 4Q.—From the following particulars prepare the Petty Cash Book of W. Robertson for the month, using analysis columns for the following classes of expenditure: (*a*) Postage, Telegrams, etc. (*b*) Stationery, (*c*) Advertisements, (*d*) Carriage, (*e*) Fares, (*f*) Sundries, and a "Ledger column." Balance the Cash Book as on May 14. May 1, Drew from Bank for petty cash £20; May 1, postage 1*s*. 7*d*., telegrams 2*s*. 6d.; May 3, fares to Turnham Green 9*d*., advertisements in the *Ryetown Gazette* 13*s*. 5*d*., postage 7*d*. May 4, paid man for cleaning windows 1*s*. 6*d*., telegrams 1*s*. 3*d*., parcel to Potters Bar 9*d*.; cab to Westminster 4*s*.; May 5, sent boy out for pens 6*d*., blotting paper 4*d*., parcel to Brighton 1*s*. 1*d*.; stamps 10*s*.; May 7, surcharge on unstamped letters 2*d*.; advertisement in the *Pedlington Mirror* 5*s*.; new lock to office cupboard 2*s*. 6*d*., tram to Hackney 3*d*.; May 10, paid R. Jones his account 5*s*. 6*d*., hire of barrow 4*d*.; May 11, postage 2*s*. 2*d*., parcels 5*s*. 6*d*., fares 9*d*.; May 11, telegram 9*d*., train to Hastings on business 10*s*.; May 12, bottle of ink 2*s*. 6*d*., paid W. Harris his account 7*s*. 3*d*.; May 13, stamps 7*s*. 6*d*.; insertion of name in *Directory* 5*s*.; May 14, fare 4*d*., telegram 7*d*., new waste-paper basket 2*s*. 6*d*. (debit Furniture Account in Ledger Column).—*Answer*. Balance in hand £15 3*s*. 2*d*.

CHAPTER V

Exercise 5E.—From the following particulars write up my Purchases Book:—Nov. 1, bought of A. Brown 1 doz. pocket knives at 11*s*. 6*d*. each, less 10 per cent. Trade Discount; Nov. 2, bought of Wray & Co. 2 doz. pocket knives at 4*s*. 6*d*. each, net and 1 doz. ditto at 8*s*. 6*d*. each, less 15 per cent. Trade Discount; Nov. 3, bought of Hyne & Co. 1 doz. cases of scissors at 10*s*. 6*d*. per case net; Nov. 4, bought of Williams Bros. 2 doz. "Haba" razors at 4*s*. each net, and 1 doz. ditto at 3*s*. 6*d*. each; Nov. 5, bought of Knowle & Sons 1 doz. cases of scissors at 15*s*.

per case, less 10 per cent. Trade Discount, and 1 doz. razor strops at 2*s*. 9*d*. each net.—*Answer.* Total Purchases £38 17*s*. 10*d*.

Exercise 5F.—From the following particulars write up the Purchases Book of Henry Johns :—Nov. 1, bought of A. B. Baker 3 cwt. shellac at £3 15*s*. per cwt., and 1 cwt. beeswax at £7 16*s*. per cwt., both less 5 per cent. Trade Discount; bought of Ball Bros. & Co. ½ cwt. Socotrine aloes at £4 10*s*. per cwt., and 10 lb. cardamoms at 2*s*. 6*d*. per lb.; Nov. 2, bought of Banks & Barclay 1 cwt. turmeric at 13*s*. 6*d*. per cwt., and 2 cwt. gum olibanum at 32*s*. per cwt.; bought of Barham & Barker 1 cwt. gum myrrh at £2 12*s*. per cwt., 1 cwt. ditto at £2 15*s*. per cwt., and 2 cwt. ditto at £3 per cwt., all subject to 5 per cent. Trade Discount; Nov. 3, bought of Barnett & Co. 12 lb. isinglass at 2*s*. 6*d*. per lb. net, and 1 cwt capsicums at 29*s*. per cwt. net; Nov. 4, bought of Baum & Sons, Ltd., 10 cwt. gum arabic at 27*s*. 6*d*. per cwt., less 5 per cent. Trade Discount.—*Answer.* Total Purchases £52 5*s*. 4*d*.

Exercise 5G.—From the following particulars write up my Purchases Book, including analysis columns for "Cutlery," "Electro Plate," and "Leather" Departments :—Nov. 1, bought of J. Pollock 1 doz. pairs of scissors at 2*s*. per pair, and 1 electro-plated breakfast dish at £4 2*s*. 0*d*.; bought of C. Jordan 1 electro-plated egg steamer at 21*s*., 2 ditto at 23*s*., 1 doz. cases of scissors at 12*s*. 6*d*. per case, and 1 doz. razors at 3*s*. 6*d*. each; Nov. 2, bought of Webb & Co. 3 ladies' morocco leather handbags at 12*s*. 6*d*. each, 6 cases of razors (2 in a case) at 10*s*. per case, 4 cases ditto (4 in a case) at 16*s*. per case, and 1 set of entrée dishes, electro-plated, at £9 18*s*. per set; Nov. 4, bought of Fuller Bros. 3 ladies' leather music bags at 16*s*. each, ½ doz. pocket knives at 6*s*. 6*d*. each, 1 electro-plated hot-water jug at 35*s*., and 1 lady's crocodile leather handbag at 16*s*. 6*d*.—*Answer.* Total Purchases £43 3*s*.

Exercise 5H.—C. Wyatt is a dealer in clocks and watches. From the following particulars write up his Purchases Book, including analysis columns for his "Clock" and "Watch" Departments respectively :—Dec. 5, bought of Bykes 1 mahogany-case clock at £5 5*s*., 1 ditto at £4 4*s*., and 3 gentlemen's Swiss silver watches at 46*s*. each; bought of R. Wyllie & Co. 2 mahogany-case clocks at £3 13*s*. 6*d*. each, and one oak ditto at £2 12*s*.; Dec. 7, bought of J. Wyon 1 Buhl clock (marqueterie) at £2 10*s*.; 2 ditto with gilt mounts at £2 12*s*. 6*d*. each, and 1 18 ct. gentleman's semi-hunter watch at £7 10*s*. 6*d*.; Dec. 9, bought of E. Wright 3 ladies' Swiss watches (silver) at 30*s*. each, 3 gentlemen's ditto at 32*s*. each, and 2 round-dial clocks (walnut) at 62*s*. each; Dec. 16, bought of M. Wortley 1 cuckoo clock at 13*s*. 9*d*., 1 8-day nickel clock at 8*s*. 6*d*., and 1 lady's 18 ct. Swiss lever watch at £3 13*s*. 6*d*. ; Dec. 21, bought of B. Vine & Co. 1 marble clock with bronze pillars and ornaments to match £6 10*s*. and 3 gentlemen's Swiss watches, silver, at £1 15*s*. each.—*Answer.* Totals, Purchases : Clocks £40 19*s*. 3*d*.; Watches £32 13*s*.; Grand Total £73 12*s*. 3*d*.

Exercise 5I.—From the following particulars make out the Purchases Book of Robert Bird, silversmith :—May 2. Bought of Rice Bros. 5 electro-plated crumb scoops at 17*s*. each; May 6,

bought of the Everwear Plate and Cutlery Co., Birmingham, 5 egg frames, plated, 6 cups, at 32*s.* each; 3 egg frames, plated, 4 cups, at 26*s.* each; May 14, bought of Wearman Bros., 1 silver-mounted claret jug at £2 15*s.*; 1 plated mounted claret jug at £1 7*s.* 6*d.*; 3 silver-mounted cut-glass biscuit boxes at £3 2*s.* 6*d.* each; 1 E.P.N.S. 8-inch waiter (engraved), at 23*s.* 6*d.*; May 21, bought of Rice Bros., 1 presentation silver tea-set (to order) engraved, Order C 295, £16 3*s.* 6*d.*; May 28, bought of S. W. Murphy, 1 E.P.N.S. chafing-dish at £2 12*s.* 9*d.*; 1 plated egg-steamer, plain, at 16*s.* 6*d.*; 1 plated muffin dish at 19*s.* 6*d.*; May 31, bought of R. Holmess, 1 set of 4 entrée dishes, plated, chased edges, second quality, at £5 17*s.* 6*d.* per set.—*Answer.* Total of Purchases Book, £57 6*s.* 3*d.*

Exercise 5J.—From the following particulars write up the Purchases Book of the International Fur Association, Ltd.:—March 7. Bought of Strelski & Zoitoff, Leningrad, 6 astrachan muffs at £1 10*s.* each and 3 fox muffs at £3 5*s.* each; bought of Lewis Charles & Co. 2 dyed musquash coats at £12 each, less 5 per cent. trade discount; March 8, bought of Harrison Bros. 6 mink stoles at £5 each; March 10, bought of Jacobsen & Weil 12 marmot muffs at £1 2*s.* each, less 5 per cent. trade discount; 12 moleskin muffs at £2 each, less 5 per cent. trade discount; 12 bear muffs at £2 5*s.* each, less 5 per cent. trade discount; March 15, bought of Hearst & Co. 3 grey squirrel ties at 42*s.* each, and 3 grey squirrel muffs at 45*s.* each; March 16, bought of R. Lewisohn 2 fur-lined tweed coats at £5 each; 2 fur-lined cloth coats at £7 5*s.* each; March 23, bought of Rosoff & Meer, 1 bear stole at 45*s.*, and 1 bear muff at £2; March 29, bought of Méricourt Frères, Paris, 1 sable stole at £15 and 1 sable muff at £10, both subject to 5 per cent. trade discount; March 31, bought of Bielski, Drammen & Co., Moscow, 3 caracul coats at £7 5*s.* each; 1 moleskin tie at 22*s.*; bought of Gebruder Strohl 1 astrachan muff at 32*s.*, and 1 skunk stole at £2.—*Answer.* Total of Purchases Book, £224 10*s.* 10*d.*

CHAPTER VI

Exercise 6E.—Enter the following transactions in H. Wray's Sales Book:—March 1, sold M. Heaps 6 tortoiseshell cross-hook-handle ladies' umbrellas, twill silk covers, at 24*s.* 6*d.* each, and 2 chased silver swan-handle ladies' umbrellas, silk, at 27*s.* 3*d* each; sold R. Morris 1 doz. 23-in. ladies' umbrellas, Gloria covers, natural handles, at 3*s.* 6*d.* each, and 1 doz. gentlemen's ditto, Union covers, at 4*s.* 3*d.* each; sold C. Capper 6 steel tube gentlemen's umbrellas, twill silk and malacca, at 15*s.* 6*d.* each, ½ doz. boys' school umbrellas, Union, at 2*s.* 6*d.* each, and 1 doz. ladies' steel tube umbrellas, partridge and twill silk, at 13*s.* 6*d.* each, all subject to 5 per cent. Trade Discount; sold D. Dankes 1 artist's sketching umbrella, 28 in., spiral ferrule, at 12*s.* 6*d.*—*Answer.* Total Sales £28 3*s.* 6*d.*

Exercise 6F.—From the following particulars prepare C. Mayor's Sales Book in analysed form, containing analysis columns for the "Leather Goods" and "Silver" Department sales respectively. Transactions belonging to the "Leather Goods" Depart-

ment are marked L, and those belonging to the "Silver" Department are marked S: April 7, sold M. Beck 1 doz. leather photograph frames (No. 38) at 13*s*. 6*d*. per doz. (L), and ½ doz. 30-hr. clocks, silver in leather case, at 7*s*. 6*d*. each (S); sold R. Bourne 3 doz. Empire design silver calendars at 95*s*. per doz. (S), 2 doz. glass matchboxes, silver mounts, at 72*s*. per doz. (S), and 1 doz. plated taper stands at 2*s*. 6*d*. each (S); April 8, sold C. Hollingsworth 6 assorted designs silver photo frames, c.-de-v. size, at 6*s*. 6*d*. each (S), 6 ditto cabinet size, at 10*s*. 6*d*. each (S), and 3 ditto, imperial size, at 17*s*. 6*d*. each (S); sold M. Swann 1 doz. leather writing-cases (No. 88*c*), at 12*s*. each (L), 1 doz. ditto (No. 88*d*), at 15*s*. each (L), and ½ doz. ditto (No. 88*e*) at £1 each (L), all subject to 5 per cent. Trade Discount; also 1 doz. silver-mounted perfume sprays at 4*s*. 6*d*. each net (S).—*Answer*. Total Sales £57 7*s*. 10*d*.

Exercise 6G.—On Oct. 1, L. Marley sold to P. Newton the following goods to be paid for in one month, less 2½ per cent. Discount:—1 gross pocket knives at 18*s*. per doz., less 33⅓ per cent., 4 doz. pearl penknives at 48*s*. per doz., less 33⅓ per cent.; 3 doz. ivory penknives at 45*s*. per doz., less 33⅓ per cent.; 6 doz. ivoroid table knives at 24*s*. per doz., less 25 per cent.; 6 doz. ivoroid dessert knives at 18*s*. per doz., less 25 per cent.; 3 cases carvers (5 pieces) at 24*s*. per case, less 25 per cent. In what book of first entry would L. Marley record these transactions? Rule the form of book and make the entries therein as they ought to appear. Make out also an invoice in proper form for delivery to the purchaser. (*Institute of Chartered Accountants; Inter.*)—*Answer*. Invoice Total £30 5*s*.

Exercise 6H.—Enter the following transaction in its proper book of first entry, and show the transaction also in the Purchasers' Ledger Account:—Jan. 3, sold Wrightson, Wild & Co., for export, 1 doz. gents.' steel tube umbrellas at £1 1*s*. each, less 33⅓ per cent.; 2 doz. ditto at 25*s*. each, less 40 per cent.; 2 doz. ladies' umbrellas at 25*s*. each, less 30 per cent.—*Answer*. Total £47 8*s*.

Exercise 6I.—Enter the following sales in my Sales Book:—June 1, sold to S. Boorman & Co. 2 dozen table knives at 25*s*. per dozen; June 3, sold to A. Barrow 12 gold bracelets at 26*s*. each; June 6, sold to J. Steward 3 clocks at 80*s*. each; June 7, sold to B. Bashall 10 watches at 36*s*. each; June 8, sold to R. Olney 20 alarm clocks at 3*s*. 9*d*. each; June 9, sold to H. Hope & Co. 10 dozen dessert knives at 50*s*. per dozen.—*Answer*. Total of Sales Journal £76 17*s*.

Exercise 6J.—Enter the following transactions in the Sales Book of the Californian Preserved Fruit Supply Co., Ltd.:—March 7, Sold Haysome & Co. 50 cases of preserved apricots in tins, "Gloria" brand, at 11*s*. per case, and 10 cases of preserved Bartlett pears, "Luxtra" brand, at 15*s*. per case; sold J. W. Howarth 40 cases of lemon cling peaches in tins, "Aura" brand, at 14*s*. per case, and 20 cases apricots (peeled) in tins, "Superba" brand, at 21*s*. per case; both less 5 per cent. trade discount; March 8, sold Collins & Colman 50 cases assorted preserved fruits in tins (each case containing 1 dozen tins apricots, ½ dozen tins pears, and ½ dozen tins peaches) at 22*s*. per case, less 5 per cent. trade discount; and 1 sample case of pineapple (chunks) at 17*s*. 6*d*.

per case; March 10, sold Klenck's Stores, Ltd., 5 dozen bottles French cherries in syrup at 10*s*. 3*d*. per dozen bottles, 10 dozen bottles English strawberries in syrup at 6*s*. 6*d*. per dozen bottles, and 10 dozen bottles (large) raspberries in syrup at 22*s*. per dozen bottles; March 11, sold Elston, Sons & Co. 5 cases extra quality apricots in tins at 24*s*. 6*d*. per case, and 1 dozen bottles English plums at 8*s*. per dozen bottles; March 12, sold W. Kimber 3 cases of peeled apricots in tins, "Capitada" brand, at 25*s*. per case, less 2½ per cent. trade discount, and 12 cases lemon cling peaches, sliced, at 24*s*. 6*d*. per case, less 5 per cent. trade discount.—*Answer*. Total of Sales Journal £175 12*s*. 9*d*.

CHAPTER VII

Exercise 7E.—On the 1st January, A B decided to keep his books by double entry. His position on that date was as follows:—Cash at bank £300, stock-in-trade £400, due from customers £500, due to trade creditors £200, bills payable outstanding £250. Show the Journal entries necessary to open the books. (*Chartered Institute of Secretaries; Intermediate.*)—*Answer*. Capital £750.

Exercise 7F.—On 1st January, I decided to keep my books by double entry. My position at that date was as follows:—Cash at bank £1,000, cash in hand £50, freehold premises £2,000, bills receivable £150, bills payable £850, sundry debtors £1,020, sundry creditors £1,560, stock-in-trade £560, carts and horses £125, loan on mortgage from C. Wise £1,000. Prepare the Journal entries necessary to open my books. *Answer*. Capital £1,495.

Exercise 7G.—Enter the following transactions in a Journal, ruling the necessary form: Feb. 17, exchanged 2 horses worth £20 each, and a cart worth £15, receiving against them 11 sheep worth £5 each; June 16, exchanged a motor bicycle worth £20 with Henry Jones, he giving me a bicycle worth £12 and a camera worth £8 in exchange for it; Sept. 16, parted with a set of harness (new) worth £5, receiving in exchange 2 second-hand sets of harness worth £2 10*s*. apiece. Also enter, under date the 31st Dec., the Journal entries necessary to rectify the following:—I received £60 on the 24th Sept. from J. Jones; my book-keeper credited it in error to W. Jones & Co., Ltd., with whom also I have had dealings.—R. Masters paid me a fee of £5 5*s*. for valuing some property belonging to him; my book-keeper has credited it erroneously to "Cash Sales" Account.—*Answer*. Journal Totals £145 5*s*.

Exercise 7H.—Journalize the following transactions, ruling the necessary form, and inserting dates:—Started business with £100 cash, £200 goods on hand, and owing C. Miles £50; made Hoare & Co. a special allowance of £5 in respect of certain goods sold to them; I find that my book-keeper on August 31st credited £20 received from *C*. Jones to *G*. Jones & *Son's* account instead of to C. Jones; write £50 off Furniture and Fixtures and £20 off Plant and Machinery; transfer the following balances to the Profit and Loss Account, viz.:—General expenses (Dr.) £120; discount received (Cr.) £35; rent, rates, and taxes (Dr.) £250: salaries (Dr.) £655.—*Answer*. Journal Totals £1,525

Exercise 7I.—What transactions do the following Journal entries represent?

			£	s.	d.	£	s.	d.
Feb. 1.	Bill Receivable . .	Dr.	150	0	0			
	Cash	„	11	0	0			
	Discount . . .	„	0	7	5			
	To Frant & Co. . .					161	7	5
„ 3.	Roberts & Co. . .	Dr.	100	0	0			
	To Bills Payable . .					100	0	0
„ 5.	Bank. . . .	Dr.	400	0	0			
	To Cash . . .					400	0	0
„ 7.	Cash . . .	Dr.	40	8	9			
	Bad Debts . . .	„	40	8	9			
	To J. Rupert . .					80	17	6
„ 9.	Private Expenses. .	Dr.	20	0	0			
	To Bank . .					20	0	0

(*College of Preceptors; Junior.*)

—*Answer.* Feb. 1, Bill and Cash received under discount from Frant & Co.; Feb. 3, Acceptance given Roberts & Co.; Feb. 5, Cash paid to bank; Feb. 7, 10*s.* in the £ received on J. Rupert's debt, rest written off; Feb. 9, cheque drawn for private expenses.

Exercise 7J.—The books of Messrs. Wm. Jones & Co. were balanced on 31st Dec., and a Profit and Loss Account and Balance Sheet prepared. The profit for the year, as shown by these accounts, amounted to £2,481 6*s.* 4*d.* The following mistakes had been made by the book-keeper during the year :—

(*a*) A gas engine costing £450 had been debited to "Purchases Account" instead of to "Machinery and Plant."

(*b*) An amount of £15 12*s.* 8*d.* received as a final dividend in the estate of G. Smith, the balance of whose account had, in a previous year, been written off as a bad debt, was standing to the credit of a newly-opened account under the same name, and was included amongst the "Sundry Creditors" in the Balance Sheet.

(*c*) A cheque amounting to £10 4*s.* 8*d.*, which had been returned dishonoured, was posted to the debit of "Allowances Account" instead of to the account of B. Brown, from whom it was received.

(*d*) Goods amounting to £52 1*s.* 4*d.* had been returned by R. Robinson on Dec. 30, and were taken into stock, but the entries recording the return were not passed through the firm's books until Jan. 4 in the following year.

What adjustments would be necessary to rectify these errors, and how would they affect the above-mentioned profit? (*London Chamber of Commerce; Senior.*)—*Answer.* Adjusted Profit £2,905 2*s.* 4*d.*

Exercise 7K.—Make the following Journal entries, posting the same in the Ledger Accounts and showing both the Journal entries as also the postings in such Ledger Accounts :—(*a*) Debit William Brown 1 year's interest at 5 per cent. on £1,000 loan to him, say £50. (*b*) Credit William Brown with Income Tax on this £50 interest at 1*s.* in the £, say £2 10*s.* (*c*) Transfer the following totals to the debit of Profit and Loss Account : Rent £100,

salaries £500, postages £5 10*s*., say £605 10*s*. (*d*) Transfer the following totals to the credit of Profit and Loss Account: Commissions £1,210, agencies £705, interest on loan £47 10*s*.—say £1,962 10*s*. (*Institute of Bankers; Preliminary.*)—*Answer*. Journal Totals £2,620 10*s*.

Exercise 7L.—Prepare the Journal Entries which are necessary in order to correct the following errors, ruling the necessary forms. Date the entries May 19:—£60 was received from A. Day on March 4, and was credited to his account. It now appears that he remitted the money, not on his own behalf, but on behalf of his father, Richard Day, with whom I have had dealings. My Ledger-keeper made, on Jan. 10, the following entries on the debit side of his Cash Book: (*a*) To *Commission Account*, cheque from C. Way £27 2*s*. 9*d*.; (*b*) To *Horses Account*, proceeds of one horse sold to C. Way £25; (*c*) To *C. Way*, cheque for credit of his account £17 2*s*. 9*d*.; he posted the entries accordingly. It now appears that the £17 2*s*. 9*d*. was the purchase-price of the horse sold by me for cash to C. Way, that the £27 2*s*. 9*d*. was a cheque remitted by C. Way for credit of his account as one of my trade customers, and that the £25 was for commission remitted by C. Way to me for letting one of his farms. On March 1, I paid £25 by cheque to R. Lucien, being his fee for surveying an estate owned by me; it should therefore have been debited to "Surveyor's Fees Account." My Ledger-keeper has, however, debited the amount to R. Lucien's Personal Account. I paid in cash £3 10*s*. to W. Hughes, an injured workman, as compensation. My Ledger-keeper has debited this sum to "Workmen's Compensation Account"; this sum was, however, paid by me, not on my own behalf, but on behalf of the Insurance Company with whom I am insured against this kind of loss; the Company later on sent me a cheque for the £3 10*s*., and the sum should, orginally, have been debited to them —*Answer*. Journal Totals £157 15*s*. 6*d*.

Exercise 7M.—Prepare Journal Entries to correct the following errors:—Oct. 1. Received a cheque for £15 which was posted to the credit of M. Brown, although it really came from W. Brown & Co.; October 3, I paid a solicitor named L. Mauve a cheque for £10 10*s*. for some legal work he had done for me, which should have been posted to Legal Expenses; my book-keeper, however, opened an account for L. Mauve and posted it to that account; Oct. 6, I returned some unsatisfactory goods worth £10 to G. Chrome, part of a lot he had sent me, these returns were entered in the Sales Book; Oct. 10, an item of £50 was posted to the "Furniture" Account instead of to the "Premises" Account.—*Answer*. Journal Totals £85 10*s*.

Exercise 7N.—From the following details write up the Journal Entry necessary to open the books of B. Scarlett as on Oct. 1, showing the commencing "Capital":—Cash at Bank £271 3*s*. 9*d*.; Stock £475 0*s*. 8*d*. *Creditors*, G. Gray £27 2*s*.; S. Madder £47 3*s*. 1*d*.; Premises £800; Plant and Machinery £247 6*s*. 3*d*. *Debtors*, G. Bice, £73 6*s*. 9*d*.; M. Steyne, £32 4*s*. 2*d*.—*Answer*. Capital £1,824 16*s*. 6*d*.

Exercise 7O.—From the following details prepare the Journal Entry necessary to open the books of R. Wagner as on Jan. 1:—

Leasehold premises £1,500; furniture and fittings £75; stock £1,122 7*s*. 3*d*. *Debtors*, L. Beethoven £47 6*s*. 2*d*.; F. Mendelssohn £6 0*s*. 2*d*.; F. Schubert £47 9*s*. 9*d*.; bill receivable £225; cash at Bank £62 0*s*. 4*d*. *Creditors*, G. H. Handel £99 4*s*. 7*d*.; A. S. Sullivan £62 0*s*. 4*d*.; F. Chopin £30. Cash in hand £22 4*s*. 2*d*. Owing to F. Liszt (money lent by him to start the business) £4,000.—*Answer*. Capital debit balance £1,083 17*s*. 1*d*.

Exercise 7P.—The undermentioned errors were discovered in the books of J. Johnson & Co., affecting the year ended June 30.

(1) April 20. A cheque received from W. Brown for £11 was posted to his credit as 11*s*.

(2) May 31. A Sale of £26 10*s*. was credited correctly, but debited to the Customer's Account as £20 6*s*. 10*d*.

(3) June 29. Goods were returned by R. Carr of the invoice value of £27 10*s*., and were taken into Stock at £25, but the returns were not entered in the books until the following month.

(4) June 29. The acceptance of Badart Frères to Johnson & Co.'s draft for £220 payable in Paris and which had been discounted was dishonoured. The acceptance was worthless and the Bankers debited Johnson & Co.'s. Account on July 1.

Show how the adjusting entries should be made in J. Johnson & Co.'s books at June 30. (*Institute of Chartered Accountants; Intermediate.*)—*Answer* :—

(1) Credit W. Brown £10 9*s*. 0*d*. } making no further entry.
(2) Debit the Customer £6 3*s*. 2*d*. }
(3) June, Debit Returns, Credit Carr £27 10*s*.
(4) Credit Bankers, Debit Bad Debts £220.

CHAPTER VIII

Exercise 8E.—Henry Johnson, provision merchant, holds two Bills Receivable, one being for six months for £100, accepted on June 30 by George Jenkins, and the other for five months, accepted on June 18 by Alfred Smith, for £90. Give a sketch of a suitable Bills Receivable Book for Henry Johnson and enter the above Bills therein. Alfred Smith failed to honour the Bill accepted by him: What entries does such default necessitate in Henry Johnson's books? (*Society of Arts; Intermediate.*)—*Answer*. B.R. Book Total £190.

Exercise 8F.—On 1st February the Welsh Coal Company, Limited, owe to the Birmingham Steel Company, Limited, £1,100, subject to a rebate of 3 per cent., and they have a contra account against the latter Company of £750, subject to a deduction for allowances and short weight of £18. It was agreed to settle the balance of the accounts by a bill at three months' date, and the bill is discounted one month before maturity at 3 per cent. per annum. Show the form in which the bill would be drawn and signed, including the form of acceptance and of endorsement; and show the transactions as they will appear in the books of the second-named Company. (*Institute of Chartered Accountants;*

Intermediate.)—*Answer.* Amount of Bill £335; Discount on Bill 16*s.* 10*d.*

Exercise 8G.—Ebenezer Scrooge draws a bill for £250 on Jacob Marley at four months from March 1. On May 1 he finds it convenient to discount the bill with his bankers, who charge him 5 per cent. Instance the necessary entries in Scrooge's books to bring these transactions to account. (*Society of Accountants and Auditors; Intermediate.*)—*Answer.* Discount, 64 days, £2 3*s.* 10*d.*

Exercise 8H.—From the following particulars write up my Returns Outwards Book :—Nov. 1, returned to Brown & Co., London, 1 plated crumb-scoop, ivory handle, at 22*s.* 6*d.*, ivory stained; returned to Jones & Co., Birmingham, 1 glass and electro-plated biscuit box at 13*s.* 9*d.*, cracked; Nov. 2, returned to B. Williams, Sheffield, 1 case of cake servers, silver, at £2 2*s.* 6*d.*, wrong pattern, and 2 silver napkin rings at 10*s.* 6*d.* each, 6 ordered, 8 sent; Nov. 5, returned to M. Hayes, London, 3 E.P.N.S. waiters, chased, at £2 1*s.* each, less 10 per cent. Trade Discount, wrong size sent; Nov. 7, returned to C. Jay, London, 3 cases tea-spoons and tongs, silver, at 36*s.* per case, less 5 per cent. Trade Discount, and 2 sets silver muffineers in case at 35*s.* per set net, both wrong pattern.—*Answer.* Returns Outwards Book Total £19 3*s.*

Exercise 8I.—From the following particulars prepare the Returns Outwards Book of C. Ray, carpet dealer, assuming that all goods returned are allowed for at full invoice prices :—Sept. 1, returned to Hays & Co., 3 Axminster carpet squares 12 ft. by 10 ft., wrong size, invoiced at £3 10*s.* each; Sept. 6, returned to Ryle & Sons 1 Roman bordered carpet 12 ft. by 15 ft., wrong colour, invoiced at £3 5*s.*, less 5 per cent. Trade Discount, and 2 bedroom art carpets 9ft. by 15 ft., stained with grease, invoiced at £2 each net; Sept. 12, returned to R. Horne 3 hearth rugs 72 in. by 36 in., stained, invoiced at 9*s.* 6*d.* each, and 6 Axminster corridor rugs 9 ft. by 3 ft., wrong colour, invoiced at 13*s.* 6*d.* each; Sept. 13, returned to Maynes, Ltd., 6 goat-skin hearth rugs, in voiced at 17*s.* 6*d.* each, skin faulty, 1 mottled hearth rug, No. 38, wrong colour, invoiced at 3*s.* 6*d.*, and 5 Brussels squares 12 ft. by 9 ft., inferior quality to those ordered, invoiced at £2 2*s.* each. —*Answer.* Returns Outwards Book Total £38 19*s.* 9*d.*

Exercise 8J.—From the following particulars prepare the Returns Inwards Book of M. Wise & Co., photographic dealers; all returns are allowed for at full invoice prices :—Oct. 12, Brown & Co. returned 1 No. 68 ½-plate stand camera, lens cracked, invoiced at £3 3*s.*, and 1 No. 32B ½-plate shutter invoiced at 10*s.* 6*d.*, faulty. Oct. 12, M. Hays returned 3 "Midget" watch camera outfits invoiced at £1 each less 5 per cent. Trade Discount, arrived damaged, and 1 "Prena" ¼-plate film camera invoiced at 32*s.* 6*d.*, shutter faulty; Oct. 13, R. Hedges returned 1 "Dufour" ¼-plate box hand camera, No. 38, invoiced at £3 3*s.*, lens defective; Oct. 14, C. Hubert returned 2 telescopic aluminium camera stands invoiced at £1 1*s.* each, not as ordered, and 1 waterproof canvas camera case invoiced at 8*s.* 6*d.*, soiled; Oct. 17. E. Bradbury returned 1 X.R.A. ¼-plate lens invoiced at £5, less 5 per cent. Trade Discount, not needed, 2 youths' "Guinea" hand cameras

invoiced at 12*s.* 6*d.* each net, damaged, and 1 "Grandex" daylight enlarger, size K, invoiced at 25*s.*, not as ordered.—*Answer.* Returns Inwards Book Total £21 1*s.* 6*d.*

Exercise 8K.—From the following particulars write up my Returns Inwards Book in analyzed form, including columns for "Plate" and "Cutlery" Departments:—Dec. 5, Church Bros. returned 1 E.P.N.S. waiter (12 inch) at £1 17*s.* 6*d.*, and 1 doz. ivory-handled knives at 37*s.* 6*d.* per doz., both wrong patterns; Dec. 7, Child & Co. returned 2 dozen ivory-handled knives at 35*s.* per dozen, ivory inferior, and 1 plated mount claret jug at 25*s.*, plating imperfect; Dec. 9, J. Harrison returned 2 electro-plated biscuit boxes at £1 10*s.* each, and 1 case electro-plated fish knives and forks at £4, both not as ordered.—*Answer.* Returns Inwards Book Total £15 10*s.*

Exercise 8L.—Henry Harris, an iron and steel merchant, bought from a Railway Company on Sept. 1, 245 tons of old steel rails at 35*s.* per ton, paying for the same before delivery by a cheque on his bankers for the full amount. The rails were delivered on Sept. 3, when five tons proved to be iron rails and were returned to the Railway Company. The remainder were sold as follows:—Sept. 5, 100 tons to J. Wilson & Sons at 45*s.* per ton on monthly account, for which Harris drew a bill on them at 3 months and discounted* it at 4 per cent. per annum; Sept. 7, 120 tons to Thomas Frith at 40*s.* per ton on monthly account. This was duly paid for on Oct. 10 by cheque for the full amount; Sept. 2 to 8, 20 tons to sundry persons at an average price of 42*s.* per ton for cash. Write up the books of Henry Harris in accordance with the particulars given above and post to the various ledger accounts. Draw the three months bill above mentioned accepted payable at the City and County Bank, and enter the particulars in Henry Harris's Bill Book. (*Institute of Chartered Accountants; Intermediate.*)—*Answer.* Totals: Purchases £428 15*s.*, Sales £507; Returns Outwards £8 15*s.*

Exercise 8M.—A sold goods to the value of £600 to B on Jan. 2 On Feb. 2, B sent A a bill, dated that day, for £600 at 4 months. On March 5, A discounted the bill with his bankers at 6 per cent. per annum.† On May 28, B wrote to A and informed him that he was unable to meet the bill, and requested A to retire it, which A did. At the same time, B sent A a cheque for £200 (which was duly met) and a bill at three months dated June 2 for £400 and interest at 5 per cent. per annum.†

Make the entries in A's books recording the above transactions, opening and posting up in the Ledger the accounts which are affected. (*Institute of Chartered Accountants; Final.*)—*Answer.* Discount £9, amount of Second Bill £405.

Exercise 8N.—From the following particulars prepare the Purchases Returns Book of Hubert Smith. March 21, returned to Pannell Bros. 2 tables, top 20 in. sq., "not as ordered," invoiced at 15*s.* each, £1 10*s.*; March 22, returned to Hare & Co. 1 office arm-chair, invoiced at 12*s.*, "one leg broken," 12*s.*; 1 small table, invoiced at 8*s.*, "top badly scratched," 8*s.*; March 24, returned to

* Work discount in months.

† Work discount and interest in months.

Mr. Chase 1 lady's rocking-chair, cane, invoiced at 12*s.*, ordered "upholstered plush," 12*s.*; March 29, returned to Wharton & Co. 1 bath-chair, wicker, invoiced at £1 15*s.*, medium size ordered, small size received; March 31, returned to Hare & Co. 1 japanned and decorated dressing-chest, "glass cracked," invoiced at £1 2*s.*; 1 mahogany occasional table, "top cracked," invoiced at 19*s.* 6*d.* 1 cretonne-covered sofa, "cretonne wrong pattern," invoiced at £1 15*s.*—*Answer.* Total of Purchases Returns Book = £8 13*s.* 6*d.*

Exercise 8o.—From the following particulars write up the Sales Returns Book of the Euston Carpet Supply Co.:—May 17, received from J. Brown, 2 seamless Axminster carpet squares, 12 ft. × 10 ft. 6 in., "wrong size," invoiced at £4 each, £8; May 18, received from D. Mackenzie 10 Brussels bedroom carpet squares, 12 ft. × 9 ft., assorted colours, "inferior quality to those ordered," invoiced at £2 15*s.* each, less 10 per cent. trade discount; May 19, received from O'Connor and Long 1 heavy Roman bordered bedroom art carpet, 12 ft. × 15 ft., "wrong colour," invoiced at £3 2*s.* 6*d.*; 2 Corona bordered bedroom art carpets. 9 ft. × 15 ft., "wrong pattern," invoiced at £2; 1 hearth-rug, 72 in. × 36 in., W.C. 992, "stained with grease," invoiced at 9*s.* 6*d.*; May 24, received from G. Lloyd & Cecil, Ltd., 2 Axminster corridor rugs, 9 ft. × 3 ft., "wrong size," invoiced at 16*s.* each, £1 12*s.*; Goat-skin hearth-rug, grey, invoiced at 18*s.* 9*d.*, "skin faulty"; May 26, received from the Streatham Stores Co., Ltd, 1 mottled hearth-rug, 64 in. × 27 in., "stained,"invoiced at 3*s.*—*Answer.* Total of Sales Returns Book = £41 0*s.* 9*d.*

Exercise 8p.—Pass the following transactions through the proper books (including a Bills Receivable Book to be ruled by you), and make all the entries which are necessary to comply with the double-entry system:—Jan. 6, received from Hubert & Co. their acceptance (No. 1), drawn by me in my own favour, payable three months from to-day, at 394, Lime Street, E.C., for £200; Jan. 18, received from Miles Bros. a Bill of Exchange (No. 2), drawn by me on them in my favour, payable two months after date at the Bank of England, London, dated Jan. 18, for £250; Jan. 21, received from Wrilding & Co., a Bill of Exchange (No. 3), drawn by myself on them in my favour, payable ten days after date at 222, Little Mill Street, Leeds, dated Jan. 21, for £600; Feb. 3, Bill Receivable (No. 3), due to-day, was presented by my bankers, and was duly paid to them for my account; March 9, I discounted Bill (No. 1) with my bankers, being charged discount 15*s.*; March 21, Bill Receivable (No. 2), due to-day, was paid by me into my Bank Account for collection, but was returned dishonoured, the Bank having charged me 1*s.* 6*d.* for "noting expenses" in connection with the Bill; March 22, received from O. Jones his acceptance, drawn by me in my favour, payable one month after date, dated March 22 (No. 4), for £200.—*Answer.* Total of Bills Receivable Book = £1,250.

Exercise 8q.—Pass the following transactions through my books in double-entry form, including a properly ruled Bills Payable Book. All bills are made payable at my bankers. The total of the Bills Payable Account is to be posted in its proper place:—June 2, accepted J. Jones's draft three months from date,

in his own favour, dated June 2 (bill payable No. 36), for £300; June 3, W. Brown drew on me, in his own favour, at ten days after date, dated June 3—accepted this draft (No. 37), £250; June 9, handed to C. Miles my acceptance, in his favour, due June 25–28 (No. 38), for £100; June 16, accepted Warren & Sons' draft, in their own favour, dated June 16, payable one month after date (No. 39), for £200; June 16, bill payable (No. 37) was paid by the Bank, £250; June 28, bill payable (No. 38) was paid by the Bank, £100; July 19, bill payable (No. 39) was paid by the Bank, £200; Sept. 5, bill payable (No. 36) was paid by the Bank, £300; Sept. 7, gave C. Drew my acceptance, in his favour, dated to-day, payable three months after date, drawn by him (No. 40), for £100.—*Answer.* Total of Bills Payable Book = £950.

Exercise 8R.—From the following particulars prepare the Returns Outwards Book of V. Summers, Gentlemen's Outfitter:—Sept. 9, returned to the Premier Outfit Co., Ltd., 1 chauffeur's jacket, wrong size sent, 24*s.* 6*d.*,; Sept. 11, returned to R. Hall & Co., 1 doz. pairs boys' boots at 54*s.* the doz., inferior quality, ½-doz. slippers at 24*s.* the doz., wrong colour sent; Sept. 18, returned to the West End Co., Ltd., 3 doz. gentlemen's collars at 5*s.* 6*d.* per doz., sent in excess of order.—*Answer.* Total £5 1*s.*

Exercise 8S.—From the following particulars prepare the Purchases Returns Book of H. Brown, Furniture Dealer:—March 17, returned to Turner & Co. 3 arm-chairs, "not as ordered," invoiced at 37*s.* 6*d.* each less 5 per cent. trade discount; March 24, returned to Carpenter Bros. 1 overmantel, warped, invoiced at 42*s.* net; March 26, returned to S. Joiner, 1 set of fire-irons, invo[illegible]ed at 12*s.* 6*d.* less 10 per cent. trade discount; March 31, r[illegible]ounts. L. Carver, 1 bracket, broken in transit, 17*s.* 6*d.* net[illegible]able at Total £8 17*s.* 7½*d.* eturned to

Exercise 8T.—From the following particulars w[illegible]—*Answer.* Returns Book of Messrs. Sillicker & Co., Glas Oct. 3, Messrs. T. Quart & Co. returned 1 doz. [illegible]p the Sales broken in transit, charged at 4*d.* each, less trad[illegible]rchants:— per cent.; Oct. 4, Messrs. Flint & Co. returned [illegible] tumblers, charged at 4*s.* 6*d.*; Oct. 6, J. Taylor returned [illegible]count of 25 badly engraved, charged at 21*s.* the pair, less 1[illegible]cking-case, Discount; Oct. 7, Messrs. Tantalus & Co. ret[illegible]rt decanter, jugs, wrong colour sent, charged at 2*s.* 6*d.* ea[illegible] cent. Trade Total £1 5*s.* 5½*d.* [illegible]d 3 cut-glass [illegible]st.—*Answer.*

CHAPTER IX

Exercise 9E.—Write up the following trans[illegible] of Joseph Granby in his Cash Book and Sold and Bought [illegible]s; post to his Ledger, and make out a Trial Balanc[illegible]ne 30. Jan. 1, cash in hand £17 15*s.* 3*d.*; cash at bank [illegible] goods in stock £349 13*s.* 11*d.*; Jan. 8, sold to Wells [illegible] £19 16*s.* 3*d.*; Jan. 12, bought of Brown Bros. goods £[illegible] 9*d.*; Feb. 12, Wells & Son pay £19 10*s.*—allowed them discoun[illegible]; Feb. 13, paid to bank £10; March 6, drew cheque for Br[illegible] Bros. £12; March 13, sold to Chas. Carr goods £34 15*s.* 1*d.*; March 31, received cash for goods £2 10*s.*; April 4, bought goods of D. Dixon, £86 2*s.* 9*d.*; April 18, Joseph Granby withdraws cash

£20 *; April 28, received from Carr, and paid to bank, £33, discount £1 15*s*. 1*d*.; May 9, Wells & Son buy goods £96 14*s*. 3*d*.; May 25, Wells & Son pay cash £40; June 6, paid Brown Bros. cash £12 10*s*., discount 9*s*. 1*d*.; June 14, paid Dixon cash £10, and cheque on bank £30; June 23, drew cheque for rent £25; cash paid for sundry expenses £14 17*s*. 3*d*. (*West Riding County Council.*)—*Answer*. Trial Balance Totals £734 5*s*. 3*d*.

Exercise 9F.—Thomas Flint bought, on Jan. 1, from the trustee of Samuel Chrystal, a bankrupt, his business as haberdasher, paying him immediately £400 for the stock and £50 16*s*. 6*d*. for furniture and fixtures (taken at a valuation), but nothing for good-will, while the trustee kept and collected the book debts. Flint brought in as working capital £549 3*s*. 6*d*. He opened the usual books, using his Cash Book to record all receipts and payments which were through his Bankers, while he kept a Petty Cash Book to record the payment of wages and sundry expenses connected with the business. Pass the above and the following transactions through the proper books to the Ledger, and extract a Trial Balance as on Jan. 31 :—Jan. 1, drew and cashed cheque for petty cash £10; Jan. 3, bought of Abel Smith 455 yds. velvet at 9*s*. 6*d*. a yd., and 996 yds. black silk at 5*s*. 3*d*. a yd. Accepted Smith's bill at 6 months for the amount of the invoice plus interest at 5 per cent. per annum for the accommodation; Jan. 4, bought 6 seats for his assistants at 10*s*. each, and a new counter costing £27, and paid for same net; Jan. 6, bought of Adam Jones 9 pieces of 64 yds. each, Irish linen at 2*s*. 2*d*. a yd., 2½ per cent. cash discount being allowed for payment within 14 days; Jan. 7, paid his accountant £24 3*s*. 6*d*. for examining the books of S. Chrystal and negotiating purchase with trustee; Jan. 8, received from his principal assistant £50 as a loan at 5 per cent. per annum interest, plus 7½ per cent. of the profits; Jan. 10, sold Mrs. White 16 yds. velvet at 12*s*. 6*d*. a yd., 33 yds. Irish linen at 2*s*. 6*d*. a yd., 2 Victoria felt underskirts at 10*s*. 6*d*. each, 12 yds. black silk at 6*s*. 6*d*. a yd., and 6 yds. purple silk at 9*d*. a yd. The total purchase was to be paid for not later than Feb. 6, 5 per cent. per annum being charged on the account if overdue, while 1¼ per cent. discount was to be allowed if paid within 7 days; Jan. 11, paid his lawyer for expenses connected with the purchase of the business £10 6*s*. 8*d*.; Jan. 12, paid from petty cash postage of circulars £3, and sundry shop expenses £2 12*s*. 6*d*.; Jan. 13, received from Mrs. White payment of goods invoiced 10th; Jan. 16, paid Adam Jones as per invoice of the 6th inst.; Jan. 22, sold Mrs. White a repeat of the order of the 10th inst., but for half the quantity of each item, and upon the same terms; Jan. 22, sold Mrs. White a repeat of the order of the 10th, but the goods being soiled or imperfect a trade discount of 15 per cent. was allowed; Jan. 31, drew and cashed cheque for wages for the month £20 3*s*. 9*d*., drew cheque £20 (as against profits) for private purposes, received for the month (as per till book) £103 12*s*. 6*d*., being cash sales (paid to bank). (*Royal Society of Arts ; Intermediate.*)—*Answer*. Trial Balance Totals £1,668 9*s*. 10*d*.

Exercise 9G.—The Trial Balance below contains three errors which you should be able to detect, and no others. Make any

* Debit J. Granby's Capital Account.

alterations which you think necessary, state why you make them, and show by adding the columns that the Dr. and Cr. totals then agree.

£	s.	d.		£	s.	d.
49	3	4	R. Leslie	85	14	1
847	3	11	Goods	219	4	4
			F. Fairfax	53	14	6
275	3	6	Bank	159	7	10
420	0	0	Bills Receivable	629	10	0
79	10	0	K. Longhurst			
29	3	6	Discount	35	11	9
103	14	4	Salaries and Wages			
			Trade Expenses	39	19	6
200	0	0	Bills Payable	375	0	0
845	15	7	Capital			
£2,849	14	2		£1,598	2	0

Note: Redraw the Trial Balance, showing the *balance* of each account instead of the *total* on either side of the account. (*University of Cambridge Local Examination ; Junior.*)—*Answer.* Capital and Trade Expenses on wrong sides; B.R. £629 10*s.* should be £269 10*s.*; T.B. Totals £1,117 9*s.* 1*d.*

Exercise 9H.—A merchant has in stock at the end of his financial year 144 yards of cloth which cost him 3*s.* 4*d.* per yard less 5 per cent. discount. The selling price is 4*s.* 2*d.* per yard less 2½ per cent. discount. 12 yards of the cloth have been damaged and can be sold for 1*s.* per yard. At what sum should he value this cloth in his stock-taking? (*West Riding County Council ; First Stage.*) —*Answer.* £21 10*s.*

Exercise 9I.—From the following particulars prepare C. Hay's Trading Account for the year 19— :—Stock Jan. 1, £2,050 2*s.* 2*d.*; sales £7,184 2*s.* 6*d.*; returns outwards £30; purchases £5,222 6*s.* 8*d.*; stock Dec. 31, £950; returns inwards £65 10*s.*—*Answer.* Gross Profit £826 3*s.* 8*d.*

Exercise 9J.—From the following particulars prepare O. Robinson's Manufacturing Account for the year 19—.—Stock Jan. 1, £1,000; purchases of materials £9,000; returns outwards £400; wages £6,850; sales £17,000; cost of lighting and heating factory and electrical power (manufacturing) £700; carriage of raw materials to factory £125; stock in hand Dec. 31, £2,525.—*Answer.* Gross Profit £2,250.

Exercise 9K.—Draw out a Profit and Loss Account :—Jan. 1), capital £2,675; Jan. 31, gross profit £425; sundry expenses £35; rent £70; wages £80; bad debts £20; discounts received £25; discounts allowed £30. (*Auctioneers' Institute of the U.K. ; Preliminary.*)—*Answer.* Net Profit £215.

Exercise 9L.—From the following particulars prepare C. Wray's Trading and Profit and Loss Accounts for the year 19—. —Purchases £3,311 1*s.* 3*d.*; sales £5,131 11*s.* 3*d.*; stock Jan. 1, £1,101 1*s.* 11*d.*; stock Dec. 31, £1,313 13*s.* 11*d.*; salaries, £711 13*s.* 10*d.*; rent, rates, and taxes £231 1*s.* 10*d.*; postage, stationery, and telegrams £113 1*s.* 1*d.* ; discounts allowed

£31 11*s.* 1*d.*; discounts received £13 1*s.* 11*d.*; interest paid on mortgages £136 6*s.* 1*d.*; interest received on deposit account at bank £31 1*s.* 10*d.*; returns inwards £13 13*s.* 1*d.*; returns outwards £311 11*s.* 3*d.*; depreciation £100.—*Answer.* Net profit £1 051 10*s.*

Exercise 9M.—From the following particulars prepare the Trading and Profit and Loss Accounts of Eureka, Ltd., for the year 19—.—Stock Jan. 1, £13,882 4*s.* 9*d.*; stock Dec. 31, £12,1 8 4*s.* 6*d.* sales £100,121 14*s.* 9*d.*; purchases £66,222 1*s.* 8*d.*; returns outwards £884 9*s.* 2*d.*; returns inwards £1,221 0*s.* 4*d.*; general expenses £1,884 9*s.* 6*d.*; commission received £21; interest paid £3,368 15*s.* 9*d.*; discount received £111 4*s.* 9*d.*; discount allowed £1,200 4*s.* 6*d.*; rent, rates, and taxes £3,321 9*s.* 2*d.*; salaries and wages £4,486 1*s.* 9*d.*; stationery and printing £599 2*s.* 8*d.*; carriage on goods sold £244 8*s.* 2*d.*; postages, telegrams and telephone £388 4*s.* 9*d.*; depreciation of office furniture and fittings £111 2*s.* 2*d.*; amount written off preliminary expenses £1,000; bad and doubtful debts, provision for, £2,200.—*Answer.* Gross Profit £31,799 1*s.* 8*d.*; Net Profit £13,127 8*s.*

Exercise 9N.—On Dec. 31, J. Harris found that his gross profit on trading for the year amounted to £760. He also discovered that his gross sales during the year had exceeded his purchases by £631 0*s.* 8*d.*, but that £132 worth of goods thus sold had been returned to him. His stock on Dec. 31, consisted of 3 tons 2 cwt. of copper at £71 per ton, and 194 tons 7½ cwt. pig iron at 66*s.* 8*d.* per ton. Assuming for the purposes of this question that the prices of copper and pig iron have not varied during the year, what was the value of his stock on Jan. 1? (*Civil Service Commissioners* [*Assistant Surveyor of Taxes*].)—*Answer.* £607 1*s.*

Exercise 9O.—Henry Radford keeps his books by double entry, and requests you to prepare his Trading Account for the year. He gives you the following information:—Stock Jan. 1, £500; stock Dec. 31, £1,500; returns inwards £40; sales £3,050; returns outwards, nil. He is unable to tell you the total of his purchases for the year owing to the fact that the Purchases Account has been torn out of his Ledger. He tells you, however, that at Jan. 1, he owed £1,550 to his trade creditors for goods bought, that he has paid them £2,600 in cash during the year and has accepted their bills for £1,250 during the year, also that he owes them £1,200 at the end of the year. Ascertain his purchases for the year, and then prepare his Trading Account.—*Answer.* Purchases £3,500; Gross Profit £510.

Exercise 9P.—In closing the books of Robert Sawyer you find the undermentioned items. How would you deal with these transactions when preparing the Annual Accounts for the year ended Dec. 31: (i) Fire insurance premium (£50) paid on June 30, covering the twelve months to June 30 following. (ii) Salaries (£125) accrued due to A, B, C, but not yet drawn by them. (iii) R. Robinson paid £100 in advance in full settlement for work which was being executed for him under a contract. The cost of the work completed up to Dec. 31, amounted to £39, when it was estimated that half the contract had been completed. (iv) Patents Account showed a debit balance of £557 7*s.* This amount consisted of Patent rights (6 years to run) purchased for £550, and renewal fees for the year £7 7*s.* (v) Three years ago

Robert Sawyer bought a milling machine for £200, and depreciation at the rate of 10 per cent. upon the diminishing balance has been written off each year ; the same machine, however, can now be bought for £120 owing to improvements in manufacture. (*London Chamber of Commerce; Senior.*)—*Answer.* (i) Carry £25 forward as an asset. (ii) Reserve £125 as owing. (iii) £11 estimated profit may be taken credit for, but it is often safer to leave matters over until completion. (iv) Write off £7 7*s.* plus (say) $\frac{1}{8}$th of £550. (v) Depreciate as usual and ignore external fluctuations.

Exercise 9Q.—Sometimes provision is made for depreciation of plant by writing off a fixed proportion of the original cost in each year, and sometimes by writing off in each year a fixed percentage of the balance of the account as it stood at the commencement of the period. Supposing that it is desired to write machinery which cost £1,000 down to, say, £600 at the end of the fifth year, state the amount that would be charged against each year's profits under each of these two systems. (*Chartered Institute of Secretaries ; Intermediate and Final.*)—*Answer.* Fixed percentage of original cost 8 per cent.; fixed percentage of diminishing balance 9·71 per cent.

Exercise 9R.—The following is a Trial Balance extracted from the books of Charles Weeks by his book-keeper. The latter has evidently made several mistakes in preparing it. You are requested to re-draw it in proper form so that the Trial Balance shall show totals which agree.

TRIAL BALANCE, *June* 30, 19—

	Dr. £	Dr. *s.*	Dr. *d.*	Cr. £	Cr. *s.*	Cr. *d.*
C. Weeks Capital Account (Credit Balance)				432	11	10
Freehold land and buildings				500	0	0
Salaries	142	19	6			
Rates and taxes	42	10	9			
Discounts allowed				4	10	2
Discounts received	6	1	9			
Stock, Jan. 1				361	14	9
Purchases	1,110	16	3			
Returns inwards				14	2	6
Sales				2,010	4	9
Furniture and fixtures	32	9	8			
Printing and stationery	36	9	4			
Cash in hand	12	4	9			
Cash at the Bank	241	12	2			
Commission paid				10	10	0
Purchases returns	12	2	2			
General expenses	75	9	8			
Advertising expenses				5	6	6
Creditors : J. Brown				109	10	0
W. Jones				120	5	6
Debtor : W. Harris	100	0	0			
	£1,812	16	0	£3,568	16	0

Answer. Trial Balance Totals = £2,690 16*s.*

Exercise 9S.—From the following particulars extracted from the books of C. Lawrence, prepare his Trading Account for the year ended Dec. 31.—Stock of goods in hand, Jan. 1, £11,246 9*s.* 8*d.*;

sales for the year, £68,109 11*s.* 3*d.*; purchases for the year, £66,242 12*s.* 9*d.*; returns outwards for the year, £1,842 19*s.* 8*d.*: stock of goods in hand Dec. 31, £12,899 1*s.* 3*d.* Show also the Journal Entries which are necessary in order to deal with the Stock, Sales, Purchases, and Returns Outwards Accounts in O. Lawrence's Ledger.—*Answer.* Gross Profit £5,362 9*s.* 9*d.*

Exercise 9T.—From the following particulars, extracted from the books of C. Cooper, prepare a Trading Account for the year ended December 31. Purchases on credit for year, £7,219 8*s.* 4*d.*; purchases for cash for year, £108 14*s.* 6*d.*; stock, Jan. 1, £8,642 11*s.* 1*d.*; stock, Dec. 31, £3,055 0*s.* 10*d.*; sales returns for year, £133 4*s.* 6*d.*; sales on credit for year, £13,866 4*s.* 9*d.*; cash sales for year, £1,029 8*s.* 3*d.*; returns outwards for the year, £521 4*s.* 2*d.*—*Answer.* Gross Profit = £2,367 19*s.* 7*d.*

Exercise 9U.—From the following particulars prepare the Trading Account, and the Profit and Loss Account of C. Willis, for the year ended December 31 :—Stock of goods in hand, Jan. 1 £3,096 10*s.*; sales £35,932 15*s.* 1*d.*; purchases £34,364 3*s.* 9*d.* returns inward £3,921 0*s.* 3*d.*; returns outward £2,091 17*s.* 10*d.* wages £425 16*s.* 4*d.*; salaries £394 12*s.* 1*d.*; postages £38 17*s.* 9*d.* discounts received £365 2*s.* 8*d.*; discounts allowed £39 4*s.* 2*d.* rent, rates, and taxes £274 9*s.* 8*d.*; general expenses £214 0*s.* 11*d.*; telephone subscription £36 10*s.*; stock of goods on hand Dec. 31, £4,114 2*s.* 6*d.*—*Answer.* Gross Profit = £757 1*s.* 5*d.*; Net Loss = £301 6*s.* 10*d.*

Exercise 9V.—From the following Trial Balance which has been extracted from the books of Mr. Wiggins make out—

1. A Trading Account for the year ended December 31.
2. A Profit and Loss Account for the same period.
3. The Journal entries which are necessary for the construction of these two accounts.

	Dr.			Cr.		
	£	*s.*	*d.*	£	*s.*	*d.*
Cash in hand	150	2	6			
Stock, Jan. 1	1,042	12	9			
Purchases	3,331	11	2			
Freehold land and buildings	1,028	16	10			
Returns inwards	14	2	8			
Salaries	284	2	10			
Rent, rates, and taxes	188	17	3			
Telegrams, postages, and telephone subscription	14	3	6			
Sales				4,086		
Debtors: C. Brown	114	11	0			
W. Hayes	39	0	10			
R. Norris	221	4	8			
Creditor: C Finnemore						
General Expenses	111	4	2			
Discount	36	8	5			
Commissions received				5	5	6
H. Wiggins's Capital Account				2,385	4	9
	£6,576	18	7	£6,576	18	

Note.—Value of stock of goods in hand December 31 = £1,212 8*s.* 6*d.*—*Answer.* Gross Profit = £910 4*s.* 9*d.*; Net Profit = £280 14*s.* 1*d.*

Exercise 9w.—The following is the Trading Account of Arthur Rance, a merchant, as prepared by his book-keeper. The latter's knowledge of book-keeping is slight, and the amount of the gross profit arrived at is evidently incorrect. You are requested to correct the mistakes appearing in the statement, and to redraw it in proper form.

ARTHUR RANCE.

TRADING ACCOUNT for the year ended December 31, 19—.

		£	s.	d.	£	s.	d.			£	s.	d.	£	s.	d.
19— Dec. 31	To Purchases ...	724	2	9				19— Jan. 1	By Stock in hand at Jan. 1				200	14	9
	Add Returns Inwards ...	6	2	5				Dec. 31	„ Sales ...	1,059	2	6			
	Add Stock in hand at Dec. 31 ...	198	4	11	928	10	1		*Less* Returns Outwards	4	2	9	1,054	19	9
	To difference between the two sides, being the balance of Gross Profit				327	4	5								
					£1,255	14	6						£1,255	14	6

Answer. Gross Profit = £330 10*s.* 3*d.*

Exercise 9x.—The following is a Trial Balance extracted from the books of H. Wood. Several items, however, are entered on the wrong side. Correct the Trial Balance so that the totals agree.

TRIAL BALANCE, *September* 30, 19—.

	£	s.	d.	£	s.	d.
H. Wood, Capital Account . .				1,972	10	3
Freehold Land and Buildings .				750	0	0
Salaries	73	19	3			
Rates and Taxes.	42	0	2			
Discounts allowed				10	17	4
Discounts received	19	19	2			
Stock, July 1				1,349	16	3
Purchases				864	6	3
Returns Inwards	11	13	7			
Sales	1,590	16	3			
Furniture and Fittings . .	50	0	0			
Printing and Stationery . .	22	4	9			
Cash at Office				11	16	3
Cash at Bank	229	14	7			
General Expenses				22	0	4
Sundry Debtors	492	6	3			
Sundry Creditors				347	9	4
	£2,532	14	0	£5,328	16	0

Answer. Correct total of Trial Balance = £3,930 15*s.*

Exercise 9Y.—The following is the Trading Account of Balham Brown, a trader, as prepared by his book-keeper. The latter has evidently no proper knowledge of book-keeping, and there are several errors in the account. You are required to draw up the account correctly.

BALHAM BROWN,

Trading Account for the Year Ended Sept. 30, 19—.

19—		£	s.	d.	19—		£	s.	d.
Sept. 30	To Purchases	699	0	7	Oct. 1	By Stock .	220	6	2
	Add Returns inwards .	14	7	0	Sept. 30*	Sales £820 7s. 2d. Less Returns Outwards £17 0s. 3d. =	803	6	11
	Add Stock t 30/9/—		6	3					
						Difference—being Balance of Gross Profit	207	0	9
		£1,230	13	10			£1,230	13	10

Answer. Gross Profit = £420 19s. 11d.

Exercise 9Z.—From the following particulars prepare the Trading and Profit and Loss Accounts of H. Rainbow for the six months ended Dec. 30:—Stock, July 1, £1,473 6s. 2d.; sales £4,763 9s. 8d.; purchases £3,631 17s.; returns inwards £127 0s. 9d.; returns outwards £47 9s. 9d.; wages £322 0s. 7d.; salaries £207 6s. 3d.; postages £69 0s. 3d.; rents, rates, and taxes £473 6s. 3d.; general expenses £221 4s. 1d.; stock, Dec. 31, £807 6s. 3d.—*Answer.* Gross Profit = £64 1s. 2d.; Net Loss = £906 15s. 8d.

CHAPTER X

Exercise 10E.—I. Enter the following Statements and Transactions in Invoice Book (Purchases Book), Sales Book, Cash Book (having Bank and Office columns); *or* journalize. (N.B.—All cheques to be treated as bank transactions). 2. Post these entries into the Ledger. 3. Balance the accounts. Ascertain how much cash I have both at the office and in the bank; also how much is owing *to* me and *by* me. Find the gain or loss in trading by means of a Goods Account (Trading Account), the net gain or loss by a Profit and Loss Account; the net capital by means of a Balance Sheet. (N.B.—A Trial Balance is not desired, as the time is limited.) On July 1, my books showed the following:—Liabilities—I owe Finch & Son £72 10s. Assets—I have cash at bank £765. I have cash at office £56 10s.; goods valued at £567 15s.; L. Martin owes me £48 5s.

* In following year.

TRANSACTIONS.—July 3, sold goods to Wren & Rooke £96 15*s.*; bought goods and paid by cheque £124 12*s.*; July 5, paid Finch & Son by cheque £72 10*s.*; sold goods to R. Swan £85; July 8, L. Martin paid me in cash £28 5*s.*; sold goods to Wren & Rooke £73 15*s.*; bought goods of Drake & Co. £136 12*s.* 6*d.*; July 12, received from Wren & Rooke, cash £26 5*s.*, by cheque £120 (discount allowed £3 15*s.*), £150; July 15, sold goods to L. Martin £67 7*s.* 6*d.*; sold goods for cash up to this date £149 8*s.*; sent cash to bank £175; July 18, sold goods to R. Swan £54: received from R. Swan, cash £39, and his acceptance at 3 months for £100,* £139; July 20, paid Drake & Co., by cheque £114, and was allowed as discount £6, £120; July 24, bought goods of Finch & Son £217; sold goods to Wren & Rooke £105; July 28, paid Finch & Son, by cheque £152, and was allowed discount £8, £160; Wren & Rooke paid to my bank account, £97 10*s.* (discount allowed £2 10*s.*), £100; July 31, sold goods for cash up to this date £132 16*s.*; sent cash to bank £150; paid wages, etc., in cash during the month £48 15*s.*; estimated value of goods on hand £356. (*College of Preceptors ; Junior.*)—*Answer.* Gross Profit £74 2*s.*; Net Profit £33 2*s.*; Final Capital £1,398 2*s.*

Exercise 10F.—(N.B.—The dates and the initials of names should be given.) 1. Enter the following statements and transactions in Invoice Book (Purchases Book), Sales Book, Cash Book (having Bank and Office columns); *or* journalize. (N.B.—All cheques to be treated as bank transactions.) 2. Post these entries into the Ledger. 3 Balance the accounts. Ascertain how much cash I have both at the office and in the bank; also how much is owing *to* me and *by* me. Find the gain or loss in trading by means of a Goods Account (Trading Account); the net gain or loss by a Profit and Loss Account; the net capital by means of a Balance Sheet. (N.B.—A Trial Balance is not desired, as the time is limited.) On July 1, my books showed the following results; Liabilities—I owe Field & Co. £95 15*s.* Assets—I have cash at bank £345; I have cash at office £27 10*s.*; goods valued at £864; C. Dale owes me £36 5*s.*

TRANSACTIONS.—July 2, sold goods to G. Heath £48 10*s.*; sold goods for cheque (sent to bank) £56 15*s.*; July 4, paid Field & Co., by cheque £91 (discount allowed £4 15*s.*), £95 15*s.*; sold goods to C. Dale £67 10*s.*; July 7, bought goods and paid by cheque £125; sold goods to K. Lea £72 8*s.*; July 10, received from C. Dale cash £53 15*s.*; paid rates and taxes in cash £22 10*s.*; July 14, sold goods for cash up to this date £132 5*s.*; sent cash to bank £150; July 16, sold goods to G. Heath £84 12*s.*; received from G. Heath, cash £97 10*s.* (discount allowed £2 10*s.*), £100; July 20, sold goods and was paid by cheque £45 6*s.*; bought goods of Field & Co. £146 10*s.*; sold goods to K. Lea £37 16*s.*; July 24, bought goods for cash £52 10*s.*; July 28, K. Lea paid me by cheque £65; paid Field & Co. by cheque £75; July 31, sold goods for cash up to this date £115; sent cash to bank £136; paid wages, etc., in cash during the month £33 15*s.*; estimated value of goods on hand £612. (*College of Preceptors ; Junior.*)—*Answer.* Gross Profit £84 2*s.*; Net Profit £30 2*s.*; Final Capital £1,207 2*s.*

* Debit this £100 to an asset account entitled "Bills Receivable," and credit a like amount to R. Swan.

Exercise 10G.—From the following Trial Balance prepare Henry Brown's Trading and Profit and Loss Account for the half year ended Dec. 31, and his Balance Sheet as on that date.

	Dr.	Cr.
Capital		£3,350
Purchases	£6,000	
Sales		8,500
Freehold Premises . .	1,000	
Bills Receivable . . .	550	
Sundry Creditors . . .		1,250
Bills Payable		2,000
Sundry Debtors . . .	3,540	
Stock July 1	2,000	
Returns Inwards . . .	20	
Salaries	750	
Printing and Stationery . .	150	
Rent, Rates and Taxes . .	300	
Insurance	10	
Electric Light	25	
Telephone Subscription . .	20	
Furniture and Fittings . .	150	
Cash at Bank	565	
Cash in hand	20	
	£15,100	£15,100

NOTES.—Stock on hand Dec. 31, £1,200. Write £15 off Furniture and Fittings and reserve £110 for Bad and Doubtful Debts

Answer. Gross Profit £1,680; Net Profit £300: Final Capital £3,650.

Exercise 10H.—Walter Robinson started business on Jan. 1 with £500 cash capital. During the next three months he purchased goods costing £682, and sold five-sixths of these for £700 cash; on March 31, of the goods purchased £82 worth had not been paid for, the remainder having been paid for as follows: bill payable, due April 20, £400, cash £200. His expenses during the three months (all of which had been paid for in cash) had amounted to £142. Enter the above transactions in Robinson's Cash Book and Ledger only, and draw Profit and Loss Account and Balance Sheet as on March 31. (*Civil Service Commissioners; Assistant Surveyor of Taxes.*)—*Answer.* Gross Profit £131 13*s.* 4*d.*; Net Loss £10 6*s.* 8*d.*; Final Capital £489 13*s.* 4*d.*

Exercise 10I.—John Smyth carries on business as a cigar manufacturer. Prepare his Profit and Loss Account and Balance Sheet from the following Trial Balance at December 31.

	£	£
Capital (January 1)		6,000
Withdrawals	1,000	
Sales		10,000
Tobacco (bought)	2,000	
Loan on Mortgage		1,000
Machinery and Plant . . .	1,500	
Carried forward	4,500	17,000

	£	£
Brought forward	4,500	17,000
Land and Buildings	2,000	
Creditors		500
Wages	5,000	
Debtors	1,500	
Boxes, Labels, etc.	500	
Rates and Taxes	40	
Bills Receivable	300	
Insurance	10	
Carriage	150	
Incidental Expenses	200	
Stock Dec. 31	2,000	
Cash at Bank	1,250	
Cash in hand	50	
	£17,500	£17,500

Charge depreciation Land and Buildings	$2\frac{1}{2}$ per cent.
„ „ Machinery and Plant	5 „
Interest to be allowed on Capital*	5 „
„ on Loan (one year)	5 „
Provision for Bad Debts and Discounts	5 „
Stock Dec. 31	£1,500.

(*Institute of Chartered Accountants ; Intermediate.*)

Answer. Net Profit £1,050; Final Capital £6,350.

Exercise 10J.—From the following Trial Balance prepare Trading Account, Profit and Loss Account, and Balance Sheet as at March 31.

Trial Balance, March 31,

	£	£
Stock at beginning of year	9,000	
Capital		15,000
Purchases	30,000	
Commission	500	
Salaries	1,000	
Rent, Rates and Taxes	400	
Bad Debts	500	
Office Expenses	300	
Sales		33,000
Furniture and Fittings	3,000	
Sundry Debtors	5,000	
Bank	2,000	
Cash in hand	100	
Drawings	800	
Creditors		4,600
	£52,600	£52,600

The value of the Stock on March 31 was £9,500. Provide for Depreciation of Furniture, etc., at 10 per cent. per annum.

* Debit Profit and Loss Account and Credit Capital Account with £300.

(*Chartered Institute of Secretaries; Intermediate.*)—*Answer.* Gross Profit £3,500; Net Profit £500; Final Capital £14,700.

Exercise 10K.—*A.* From the following Trial Balance, etc., prepare Trading Account, Profit and Loss Account, and Balance Sheet of James Robinson, manufacturer.

Trial Balance, December 31.

	£	£
Capital Account		10,000
Plant and Machinery	4,000	
Debtors	2,400	
Creditors		1,200
Drawings	1,000	
Purchases of Raw Materials	10,000	
Wages (productive)	5,000	
Bank	1,000	
Repairs	50	
Stock on Jan. 1		
Materials	800	
Finished Goods	1,200	
Rent	400	
Sales		16,000
Manufacturing Expenses	800	
Warehouse and Office Expenses	700	
Bad Debts	200	
Carriage	150	
Bills Payable		500
	£27,700	£27,700

On Dec. 31 the stock of raw materials was valued at £600, and the stock of finished goods at £850. Provide for depreciation of plant and machinery at 10 per cent. per annum. Reserve an additional £200 for bad and doubtful debts.

B. What is a reserve fund? When is it desirable that it should be represented by investments outside the business, and when (if ever) is it permissible that it should be invested in the business?

What entries must be made in the books of a company (*a*) to transfer £1,000 profits to Reserve Fund, (*b*) to invest a Reserve Fund of £1,000 in Consols at 85½? (*Chartered Institute of Secretaries; Final.*)—*Answer. A.* Gross Loss £350; Net Loss £2,450; Final Capital, £6,550. *B.* (*a*) Debit Profit and Loss Account; Credit Reserve Account. (*b*) Debit Consols Account; Credit Cash Account.

Exercise 10L.—Prepare Final Accounts of John Combine, steel merchant, on Dec. 31. Stock, at Dec. 31, valued at £3,500. Write off £400 Bad Debts, and maintain a Reserve of 5 per cent. on the remaining debtors' balances to allow for doubtful debts. Depreciate Plant 10 per cent. Allow interest on Capital at 5 per cent. per annum. Combine introduced an extra £500 capital on Dec. 1.

Trial Balance, December 31, 19—.

Dr.		Cr.	
Stock . . .	£9,600	J. Combine, Capital .	£5,000
Wages (*P. & L. A/c.*) .	3,200	Bills Payable . .	500
Railway Charges, etc..	500	The Consolidated Bank	400
Purchases . .	12,000	Sales . . .	25,000
Interest on Overdraft	20	Reserve for Bad Debts	500
Bills Receivable .	600	Discount on Purchases	400
Rents, Rates, etc. .	200	Sundry Creditors .	2,330
Plant and Machinery .	2,000		
Travelling Expenses .	500		
Repairs to Plant .	160		
Cash . . .	200		
Discount on Sales .	500		
Returns . . .	100		
Sundry Debtors .	3,500		
Office Expenses .	500		
Income Tax . .	50		
Drawings as against Profits . . .	500		
	£34,130		£34,130

(*National Union of Teachers ; Advanced.*)

Answer. Gross Profit £6,800; Net Profit £1,087 18*s.* 4*d.*; Final Capital, £5,815.

Exercise 10M.—John Robinson's Balance Sheet at Dec. 31 gives his capital as standing at credit £10,000, while his Drawing Account, owing mainly to heavy losses and bad trade, shows an accumulated debit balance of £4,206 5*s.* 6*d.* In addition to this his stock is overvalued to the extent of £3,050 6*s.* 6*d.*, and he has omitted to provide a reserve for bad and doubtful debts of 2½ per cent. on £10,750, say £268 15*s.* on debtors on Open Account, and which the position of them certainly requires. He has, further, given his name to Accommodation Bills to the extent of £8,500, on which he stands to be called upon to pay 5*s.* in the £, say £2,125. State whether, on these figures, you consider John Robinson to be solvent, and, if so, to what extent. (*Institute of Bankers ; Final.*) *Answer.* Solvent by £349 13*s.*

Exercise 10N.—From the following balances, which were extracted from the books of Charles Martin on June 30, prepare (1) a Trial Balance as at that date ; (2) a Trading and Profit and Loss Account for the half-year, and (3) a Balance Sheet as on June 30. Cash at the Bank £100 14*s.* 8*d.* Debtors—W. Brown & Sons £113 8*s.* 8*d.* Creditors—A. Child £10; C. Rowe £60 12*s.* 9*d.* purchases £1,488 11*s.* 9*d.*; stock-in-trade, Jan. 1, £200; salaries and wages £214 12*s.* 6*d.*; general expenses £86; freehold land and buildings £650; rates and taxes £22 4*s.* 2*d.*; sales £2,004 2*s.* 6*d.*; capital (credit balance) £800 16*s.* 6*d.* *Note:* The stock-in-trade as on June 30 was valued at £100 2*s.* 8*d.*—*Answer.* (1) Trial Balance totals = £2,875 11*s.* 9*d.*; (2) Gross Profit = £415 13*s.* 5*d.* Net Profit = £92 16*s.* 9*d.*; (3) Capital = £893 13*s.* 3*d.*

Exercise 10O.—From the following particulars prepare the Balance Sheet of John Hall as on June 30, showing therein the

amount of his capital at that date; Stock-in-trade £1,222 8*s*. 10*d*. Debtors (1) C. Brown £122 2*s*. 8*d*.; (2) H. Brougham £112 8*s*. 2*d*.; (3) M. Wild & Co. £12 18*s*. 8*d*. Creditors—(1) C. Wray £121 2*s*. 8*d*.; (2) Daphne, Ltd. £188 12*s*. 2*d*.; (3) The Pericles Process Co. £188 8*s*. 2*d*.; freehold land and buildings £880; plant and machinery £280 2*s*. 10*d*.; fixtures and furniture (at cost) £600; stock of loose tools and patterns £80 10*s*.; patent rights (at cost) £300 10*s*. 6*d*.; loan from the Bank £1,000; cash at the Bank £322 4*s*. 4*d*.; cash in hands of cashier £12 2*s*. 2*d*.—*Answer*. Capital = £2,447 5*s*. 2*d*.; Balance Sheet totals = £3,945 8*s*. 2*d*.

Exercise 10P.—From the following particulars prepare the Trading and Profit and Loss Accounts for the half-year ended June 30, and a Balance Sheet as on that date. The stock as on June 30 was valued at £612 13*s*. 4*d*.

C. LESLIE.

TRIAL BALANCE, *June* 30, 19—.

		Dr. £	*s.*	*d.*	*Cr.* £	*s.*	*d.*
	Capital Account				206	16	
	Freehold premises	655	10	0			
	Furniture, fittings and fixtures...	41	4	5			
	Lightwood Bros., Ltd.	177	10	0			
	W. Miles	79	14	9			
	Garcia Bros.				5	5	
	Sasso & Escobal				154	6	
	Arrietta & Co.				584	5	10
9	Salaries and wages	19	10	0			
10	Stationery	1	4	9			
11	Postage and telegrams	5	8	9			
12	Discount and allowances	4	9	4			
13	General expenses	5	12	2			
14	Carriage	3	2	6			
15	Stock in hand (Jan. 1)	686	3	5			
16	Purchases	323	0	0			
17	Sales				525	13	
18	Returns Inwards	18		5			
19	Returns Outwards				19	15	
20	Travelling expenses	4		7			
C.B	Cash at Bank	438		5			
C.B.	Cash in hand	12		9			
P.C.	Petty Cash	20		0			
		£2,496		3	£2,496	2	

Answer. Gross Profit = £130 2*s*. 2*d*.; Net Profit = £86 11*s*. 1*d*.; Balance Sheet totals = £2,037 4*s*. 8*d*.

CHAPTER XI

Exercise 11A.—John Barleycorn bought the Holly Tree Inn freehold with the furniture, fittings, wines and spirits, provisions, etc., and began business Dec. 1, as hotel proprietor. His capital consisted of £8,000 at the Town Bank, Ltd. Pass the following transactions through the proper books to the Ledger; balance the accounts and make out a Trial Balance. All receipts and payments are made through the Bank, except where stated otherwise. Dec. 1, executed conveyance of the freehold property, for which

he paid £4,000; drew and cashed cheque (for petty cash) £50; Dec. 3, paid £950 for furniture and fittings, £600 for stock of wines and spirits, and £80 for stock of provisions, as per agreed valuation; Dec. 4, bought provisions from James Bacon (on credit) for £121 5*s*.; Dec. 5, bought groceries for £3 9*s*. 6*d*. (petty cash), Dec. 8, bought cigars from John Wilkinson (on credit) for £48 10*s*.; paid servants' wages £10 10*s*. 6*d*. (petty cash); Dec. 10; banked £29 1*s*. 6*d*. received from visitors, and £38 1*s*. 9*d*. Bar and Billiard Room receipts; Dec. 15, paid servants' wages £10 10*s*. 6*d*. (petty cash); Dec. 17, sent J. Bacon cheque in settlement of account, less 5 per cent. discount allowed; banked £41 8*s*. 4*d*. received from visitors, and £49 10*s*. from Bar and Billiard Room; Dec. 18, paid Poor Rate £12 8*s*.; Dec. 19, changed a visitor's £10 cheque and paid same into Bank; Dec. 22, bought on credit two carpets of Turkey & Co, for £24; paid servant's wages £10 10*s*. 6*d*. (petty cash); Dec. 23, gave J. Wilkinson cheque in settlement, less 10 per cent. discount; drew and cashed cheque (for petty cash) £25; withdrew £25 from Bank for private purposes; distributed £10 (petty cash) as Christmas boxes; Dec. 24, banked £63 2*s*. 8*d*. received from visitors, and £65 2*s*. 6*d*. from Bar and Billiard Room; bought from Phiz & Co. a case of 3 doz. champagne at 70*s*. per doz. (on credit); sold on credit wines and cigars to George Ash for £10 10*s*.; Dec. 29, paid servants' wages £10 10*s*. 6*d*. (petty cash); Dec. 30, received cheque from G. Ash in settlement, less 5 per cent. discount; Dec. 31, banked £45 3*s*. received from visitors, and £70 4*s*. 2*d*. from Bar and Billiard Room; returned one carpet (£10) to Turkey & Co., not in order; paid manager's salary £10. (*Royal Society of Arts.*)—*Answer.* Trial Balance Totals, £8,447 1*s*. 8*d*.

Exercise 11B.—John Shaw opened an account with The Dales Bank, Ltd., by paying in £4,200 on Oct. 12th, and bought (by cheque) the following day the Duchess Slate Quarry from W. Black, the price (after valuation) being :—Freehold Land and Quarry £2,350, Stock of Slates £200, and Machinery, Plant, Tools, &c. £350. All receipts are paid into the Bank, and (except where stated) all payments are made by cheque. Pass the above and the following transactions through the proper books to the Ledger; balance the accounts; bring down the balances and extract a Trial Balance. Oct. 14, drew and cashed cheque (for petty cash) for £20; Oct. 16, bought machinery from Gray & Co. for £45. Gave them his acceptance at 1 month, which was honoured; Oct. 19, sold G. Hill 3,500 slates at £7 8*s*. per 1,000; bought 2 cwt. drills from Sheffield Steel Co. at £20 ton; Oct. 21, paid Rates £6 10*s*. 4*d*.; Oct. 23, sold Parker & Co. 1,600 slates at £7 4*s*. 2*d*. per 1,000; Oct. 24, drew cheque £73 7*s*. 9*d*. for wages, and paid the same; banked cash received for cartage £4 2*s*. 6*d*.; Oct. 27, made G. Hill an allowance for 250 broken slates (invoiced Oct. 19), made a claim upon the Railway Co. for amount; Oct. 28, received cheque from G. Hill in settlement of account, less 5 per cent. discount; bought 3 tons rails at £5 a ton from Rotherham Forge Co.; Oct. 29, sold Parker & Co. 1,500 slates at £7 4*s*. per 1,000; Oct. 31, sold D. Green 4,200 slates at £8 3*s*. 4*d*. per 1,000; drew cheque and cashed same (for Petty Cash) for £11 15*s*. 4*d*., the Petty Cash being kept upon the " Imprest " system; paid manager's salary for the month £30; drew cheque for £68 3*s*. 7*d*. for wages, and paid the

same; Nov. 5, received cheque £10 from Parker & Co. (on account); bought oil and other stores from Slippery & Co. for £4 10*s.*; Nov. 6, paid Sharp & Co. cheque £21 for legal charges; Nov. 7, Parker & Co.'s cheque for £10 returned by the bankers, dishonoured, the bank charges being 1*s.*; drew cheque £70 8*s.* 4*d.* for wages, and paid the same; banked cash received for cartage £7 14*s.*; bought 10 cwt. of blasting powder at £5 a ton from Dynamite & Co., Ltd.; Nov. 10, received cheque from Parker & Co. for £10 (on account); Nov. 16, bought timber from D. Green for £16; Nov. 19, received cheque from Railway Co. for full claim made Oct. 27; Nov. 21, drew cheque for self for private purposes £20, and cashed; drew cheque £62 17*s.* 6*d.* for wages and paid same. (*Royal Society of Arts; Intermediate.*)—*Answer.* Trial Balance Totals, £4,318 7*s.* 2*d.*

Exercise 11c.—On Jan. 1, John Smith's position is as follows:—Assets: Stock £342 4*s.* 7*d.*; Freehold Property £1,000; Furniture and Fittings £92 10*s.* 4*d.*; Cash at Bank £25 8*s.* 9*d.*; in hand £19 5*s.* 2*d.*; owing by John Bell £38 10*s.*; E. Walters £26 2*s.* 3*d.*; Black & Co. £169 10*s.*; Liabilities: To A. Brown & Co., Ltd., £64 2*s.*; W. White & Son £226 7*s.* 1*d.*; Bills payable £60; Loan due to G. Robinson £50. Open the Ledger, showing the position as on Jan. 1, and pass to it, through the proper books, the following:—Jan. 2, accepted Bill drawn by W. White & Son for the amount of their account at 3 months; sold to John Bell one electrically-heated stewpan £1 19*s.*, two omelet pans at £1 10*s.* each, three saucepans at £1 10*s.* each, three hot-water plates at £3 each, one hot-water jug £1 7*s.* 6*d.*, and one kettle £4 5*s.*,; received from Black & Co. £50 on account; Jan. 3, drew a cheque for £10 for private purposes; Jan. 4, John Bell returned one saucepan and one hot-water plate sold to him on Jan. 2, and settled his account as on Jan. 1, less 2½ per cent. discount; Jan. 5, sold F. Green 3 electrically heated water cans at 50*s.* each, 6 flat irons at 19*s.* 6*d.* each, and 1 glue pot 27*s.* 6*d.*; bought from A. Brown & Co., Ltd., five electrically heated Russian coffee machines at £1 17*s.* 6*d.* each, 6 egg boilers at £1 15*s.* each; three sterilizers at £1 12*s.* 6*d.* each, and one convector at £7 15*s.*; Jan. 6, bought for cash two office stools at £1 10*s.* each; Jan. 7, drew cheque for petty cash and wages £10; paid in cash, wages £14 2*s.* 6*d.*, and salaries £3; paid in cash, office expenses 14*s.* 10*d.*; Jan. 9, bill payable for £60 (due this day) was duly honoured on John Smith's behalf by the Bank; sundry cash sales for week ended Jan. 7, amounting to £27 2*s.* 9*d.*, paid into the Bank; Jan. 10, bought for £3 a carpet for the private office; returned to A. Brown & Co., Ltd., two egg boilers and one sterilizer bought from them on Jan. 5; Jan. 11, received from Black & Co. the balance of their account, discount at 2½ per cent. being allowed on the whole amount due from them on Jan. 1; Jan. 12, returned carpet purchased on Jan. 10 in exchange for one valued £4, the difference being paid for in cash; Jan. 13, paid cash for repairs to office desk 7*s.* 6*d.*; Jan. 14, drew cheque for petty cash £15, and paid wages and salaries as on Jan. 7; paid in cash, office expenses £2 7*s.* 2*d.*; Jan. 14, paid into Bank cash sales for week £41 15*s.* 6*d.*; paid A. Brown & Co., Ltd., £12 on account. All moneys received were at once paid into the Bank; and (unless stated otherwise) all payments were by cheque. Balance the accounts as on Jan. 14, bring down the balances and extract a

Trial Balance. Note that no Profit and Loss Account or Balance Sheet is to be prepared. (*Royal Society of Arts ; Intermediate.*)—*Answer.* Trial Balance Totals £1,781 15*s.* 4*d.*

Exercise 11D.—C. Wray started business as a produce dealer on 30th November, with £500 cash capital, which he paid into an account with the Westminster Bank, Ltd. From the following particulars write up his books, preparing a Profit and Loss Account and Balance Sheet upon their conclusion. N.B.—All cheques received and paid are paid to and drawn from the Bank. Dec. 1, bought of Brown & Co. on credit 200 cwt. shellac at £3 5*s.* per cwt. £650; Dec. 2, drew from Bank for office cash, £10; Dec. 3, paid by cheque for office furniture bought £15 2*s.* 8*d.*; Dec. 5, sold Holmes Bros. on credit 100 cwt. shellac at £3 10*s.* £350; Dec. 10, accepted Brown & Co.'s draft at 3 months for £500, paying them by cheque £145, being allowed discount £5; Dec. 10, received from Holmes Bros. their acceptance (No. 1) for £300, cash (paid to Bank) £46, allowed them discount £4; Dec. 14, paid from office cash, salaries to date £4 10*s.*; Dec. 16, sold Holmes Bros, on credit 100 cwt. shellac at £3 15*s.*, £375; Dec. 17, bought of Brown & Co. on credit 200 cwt. shellac at £3 15*s.*, £750; Dec. 19, discounted with the Bank Holmes Bros.' acceptance (No. 1) for £300, being charged discount £3; Dec. 20, sold to Rowe & Co. on credit 10 cwt. shellac at £4, £40; received cheque from Rowe & Co. on account £25; Dec. 23, paid Brown & Co. by cheque on account £300, being allowed discount £3; Dec. 27, paid from office cash for salaries to date £4 10*s.*; Dec. 30, paid by cheque sundry general expenses to date £3 8*s.* 9*d.*; Dec. 31, Rowe & Co. suspended payment, write off the £15 owing by them as wholly irrecoverable. Value of Stock on hand 31st Dec., £750.—*Answer.* Gross Profit £115; Net Profit £88 11*s.* 3*d.*; Final Capital £588 11*s.* 3*d.*

Exercise 11E.—L. Laurie, shellac and beeswax dealer, found that his position on November 1st was as follows :—Cash at Bank £1,062 12*s.* 8*d.*; stock in hand : beeswax £154 8*s.* 9*d.*, shellac £528 9*s.* 4*d.*; debtor R. Kay £622 8*s.* 10d.; creditor Rowe & Sons £1,222 8*s.* 9*d.* His transactions for November were as follows :—Nov. 1, drew from Bank for office cash £30; Nov. 2, sold R. Kay 100 cwt. " R.K." shellac at £4 per cwt., less 2½ per cent. trade discount; Nov. 3, bought of Rowe & Sons 150 cwt. button shellac at £4 per cwt.; Nov. 4, paid R. Rowe & Sons by cheque on account £500, being allowed discount £5; Nov. 7, sold to Hays Bros. 30 cwt. button shellac at £4 10*s.* per cwt.; Nov. 8, bought of Rowe & Sons 100 cwt. bleached beeswax at £7 per cwt.; Nov. 9, sold to Meyer & Co, 100 cwt. bleached beeswax at £8 10*s.* per cwt.; received from Hays Bros, acceptance at 2 m/d for £100, cheque (paid to Bank) for £20, cash (placed in office cash) £13, allowed them discount £2; Nov. 12, sold for cash by auction 100 cwt. button shellac for £445 10*s.*, and paid same to Bank; Nov. 14, paid Rowe & Sons by cheque £706 5*s.*, being allowed discount £11 3*s.* 9*d.*; Nov. 15, discounted with the Bank Hays Bros.' acceptance due Jan. 11 following, for £100, being charged discount 15*s.* 6*d.*; Nov. 17, paid from office cash, salaries to date £10, printing and stationery £5 2*s.* 2*d.*; returned to Rowe & Sons, as not up to sample, 2 cwt. of the beeswax bought on Nov. 8th, being allowed therefor at £7 per cwt.; Nov. 25, sold for cash 10 cwt.

(grade 3) shellac for £35 16*s*., received cheque for this amount, and paid same to Bank; Nov. 29, sold to Rees Bros., Ltd., 10 cwt. beeswax at £8 per cwt.; Nov. 30, paid by cheque, salaries to date £14 10*s*., paid from office cash, sundry petty expenses to date £7 2*s*. 6*d*., paid from office cash £10 into Bank. From the foregoing particulars write up L. Laurie's books for the month of November, preparing a Trial Balance, Trading and Profit and Loss Accounts, and a Balance Sheet at their conclusion. The following provisions are to be made under date November 30th :—(*a*) set aside £40 as a reserve for bad and doubtful debts, (*b*) allow £12 10*s*. for sundry expenses owing, but not paid, the statements not having yet come in from the various creditors concerned. The Trading Account is to show separately the gross profit made on beeswax and shellac, and the various books subsidiary to that account are to be shown with analysis columns for "Beeswax" and "Shellac" respectively. Value of Stocks in hand at Nov. 30th, Shellac £220; Beeswax £10.—*Answer*. Gross Profit: Beeswax £99 11*s*. 3*d*.; Shellac £97 16*s*. 8d. Net Profit £121 11*s*. 6*d*. Final Capital £1,267 2*s*. 4*d*.

Exercise 11F.—From the following particulars prepare my Trading Account for the year, showing the gross profit made on each of the two classes of goods dealt in. Stock, Jan. 1: Beeswax £1,000, Shellac £2,000; Sales: Beeswax £8,100, Shellac £3,700; Returns Inwards: Beeswax £500, Shellac £100; Returns Outwards: Beeswax £100, Shellac £200; Purchases: Beeswax £6,000, Shellac £3,000; Stock, Dec. 31: Beeswax £1,800, Shellac £2,000.—*Answer*. Gross Profit: Beeswax £2,500; Shellac £800.

Exercise 11G.—Charles Rivers is the sole proprietor of a colliery; from the following particulars prepare his Drawing and Capital Accounts as they appear in his Ledger for the year. The total of his Drawings is to be transferred to his Capital Account at the end of the year, profits being credited direct to the same account:—Balance of Capital Account, Jan. 1, £3,000; Drawings March 31, £100; April 30, £200; July 25, £200; Sept. 13, £400; Dec. 8, £300; Profit for year (after charging interest on Capital), £850; Interest on Capital, 1 year on £3,000 at 5 per cent. £150; ignore interest on Drawings.—*Answer*. Credit Balance, Dec. 31, £2,800.

Exercise 11H.—From the following particulars show my Capital Account as it would appear in my Ledger for the year; Credit Balance on Capital Account, Jan. 1, £500; Drawings: June 30, £250; Sept. 30, £100; Net profit on trading for the year, £300.—*Answer*. Credit Balance Dec. 31, £450.

Exercise 11I.—From the following particulars show my Capital Account as it would appear in my Ledger for the year: Credit Balance on Capital Account, Jan. 1, £1,500; Drawings: June 30, £300; Sept. 30, £400; Net Loss on trading for the year (after allowing for interest on Capital and Drawings), £1,300. Allow interest on Capital at 6 per cent. per annum and charge interest at the same rate on Drawings, working interest in months.—*Answer*. Debit Balance Dec. 31, £425.

Cash paid to J. Smith £10,000; Partners' drawings £1,000; Cash paid for rent £200; Salaries £500; Office expenses £100. The Stock-in-trade on Dec. 31 amounted to £3,000. (*Institute of Chartered Accountants; Intermediate.*)—*Answer.* Net Profit £3,200, Final Capital £5,700.

Exercise 13I.—A keeps his books by single entry. On Jan. 1 his capital was £6,900. An analysis of his cash book for the year gives the following particulars:—Debit side: Received from sundry debtors £6,000; Paid in on Capital Account £500. Credit Side: Due to Bank Jan. 1, £740; Payments to sundry creditors £2,500; General expenses of business £1,000; Wages £1,550; Drawings £300; Balance at Bank Dec. 31, £400; Balance in hand £10. Debtors at Jan. 1 were £5,300, and at Dec. 31 were £8,800; Creditors £1,500 and £1,950; Stock £1,700 and £1,900; Plant and machinery £2,000 and £2,000; Furniture and fittings £140 and £140. From the above material prepare a Profit and Loss Account for the year ended Dec. 31, and a Balance Sheet at that date, after providing 5 per cent. Interest on Capital (ignoring payments in and drawings), 10 per cent. Depreciation on Plant, 5 per cent. Depreciation on Furniture, and a Reserve of 5 per cent. on Sundry Debtors. (*Institute of Chartered Accountants; Intermediate.*)—*Answer.* Net Profit, after charging Interest on Capital, £3,208.

CHAPTER XIV

Exercise 14E.—On Feb. 15 I dispatched goods valued at £21 10*s.* to A. Train & Sons, Calcutta, to be sold by them on commission. Freight cost me £4 13*s.* 10*d.*, dock dues £1 19*s.* 3*d.*, insurance £2 15*s.*, and cartage 15*s.* 6*d.* On June 23 I received from Messrs. Train and Sons Account Sales with cheque for £240 13*s.* 4*d.*, the balance due to me after deducting their expenses and commission. Make the Journal entries necessary to record these transactions and to show the resulting profit or loss. (*University of Cambridge Local Examination; Junior.*)—*Answer.* Profit £208 19*s.* 9*d.**

Exercise 14F.—Journalize the following items: (*a*) New engine bought for cash £200, allowed for old engine £50. (*b*) S. W., a debtor gives a three months' bill for his account £100; one month later he retires his bill for cash £50, *less* two months at 5 per cent., and gives a fresh bill at two months for the remainder. (*c*) Consignment to India charged at £80; remitted for: †Cash £69 0*s.* 4*d.*, difference of exchange 16*s.* 8*d.*, commission £10. (*d*) Dividend received upon a debt written off last year as bad £14 3*s.* 6*d.* (*Society of Accountants and Auditors; Final.*)

Exercise 14G.—(i) A received from B on consignment 600 barrels of flour at 20*s.* per barrel. He paid freight £25, insurance £5, and storage £5. He sold 300 barrels at 26*s.* and the remainder at 25*s.*, and charged B a commission of 2½ per cent. on such sales. You are required to show how the above transactions would appear in the books of A. (ii) Taking the facts stated in the preceding

* This is an extraordinary profit on the turnover

† Gross proceeds £79 17*s*

question, you are required to show how the transactions would appear in the books of B, assuming that the account is settled by A forwarding to B a bill drawn on C at three months which is duly accepted and met at maturity. (*Chartered Institute of Secretaries; Intermediate and Final.*)—*Answer.* (i) Remittance to B, £710 17*s.* 6*d.*; (ii) Profit on B's books taking invoice price as cost £110 17*s.* 6*d.*

Exercise 14H.—On October 1 Brown & Co., of London, shipped to Viscaya Hermanos, of Buenos Ayres, per s.s. *Peixoto*, a consignment of electro-plated articles invoiced at £400, the cost price of the goods consigned, as shown in Brown & Co's books, being £335. Brown & Co. paid on October 1, for freight £11 10*s.*, insurance £7, and packing and sundry charges £1 5*s.* Viscaya Hermanos received advice of the consignment on Nov. 10th, and the same day took delivery of the goods from the steamer, paying for Government import duty gold pesos 175, and for landing charges gold pesos 10. The goods forming the consignments were sold as follows: Nov. 15, to Saenz Pena & Co., for cash, gold pesos 1,000; Nov. 16, to Dugano Brothers, on credit, 525; Nov. 16, to Bolivar e Hijo, for cash, 960; total proceeds, gold pesos 2,485. Viscaya Hermanos are entitled to a commission of 5 per cent. on sales, plus a del credere of 1 per cent. They made out their Account Sales on Nov. 26, remitting to Brown & Co. a cheque on London for the sterling equivalent of the net proceeds of the consignment. Dugano Bros. paid them for the goods bought by them on Nov. 25. From the foregoing particulars, (1) show the entries relating to the consignment in Brown & Co.'s books (in sterling). (2) Show the entries relating to the consignment in Viscaya Hermanos' books (in gold pesos). (3) Prepare the Account Sales rendered to Brown & Co. by Viscaya Hermanos (in gold pesos). Assume throughout that the Argentine gold peso is the equivalent of 4*s.* sterling, and that the remittance to Brown & Co. by cheque was effected at that rate.—*Answer.* Profit on Brown & Co's books £75 8*s.* 7*d.*; Remittance from Viscaya Hermanos $2150·90 = £430 3*s.* 7*d.*

NOTE.—A gold peso ($1) is divided into 100 cents.

Exercise 14I.—Make out to John Jones & Co., Liverpool, an Account Sales of 50 kegs of butter marked " C. D." and sold at 84*s.* per cwt.; gross weight 125 cwt., tare 6 cwt. 2 qrs. The butter was sent by Anskels & Co., Denmark, per s.s. *Jeune.* The following charges are made: Insurance £3; rates £7 10*s.*; Customs and stamps 15*s.*; sale expenses £1 10*s.* 3*d.*; brokerage 10 per cent. ; commission 2½ per cent. (*Society of Accountants and Auditors; Inter.*)—*Answer.* Net Proceeds £422 14*s.* 6*d.*

Exercise 14J.—The following transactions are stated as they appear in the books of Tomkinson & Co. From them prepare a statement of account current to be rendered by Tomkinson & Co. to R. Heaps, of Cape Town, brought down to July 18, with interest at 5 per cent. per annum:—Jan. 26, sold R. Heaps' goods shipped per s.s. *Acores* £6,019 16*s.* 3*d.*; Jan. 31, paid R. Heaps' drafts at sight on ourselves in favour of May Bros. & Co. £3,247 3*s.* 9*d.*; Feb. 23, sold R. Heaps' goods shipped per s.s. *Algarve* £2,054 4*s.* 2*d.*; April 2, received from R. Heaps by draft on the Standard Bank of

South Africa £1,265 8*s*. 2*d*.; May 2, received from Samuelson & Co. for account of R. Heaps £2,084 4*s*. 2*d*.; May 4, received from the Bank of Africa, London, for account of R. Heaps £4,849 8*s*. 1*d*.; June 13, credited to R. Heaps' account proceeds received this day of a consignment of goods sold by us for his account £151 3*s*.; June 27, received from R. Heaps for his credit by draft on the African Banking Corporation, Ltd., £1,176 1*s*. 8*d*.—*Answer*. July 18, Dr. balance: Principal £1,794 19*s*. 1*d*., interest £163 14*s*. 4*d*. = £1,958 13*s*. 5*d*.

Exercise 14K.—Prepare from the following details an account current to be rendered to the customer. A ships to B on two months' terms from date of invoice (interest at 5 per cent. account current) the following goods, viz.:—Jan. 2, £140; March 18, £312; June 4, £285; Sept. 23, £98; Nov. 6, £176; total £1,011. Payment is made by B as follows: Feb. 20, £100; May 5, £75; July 31, £200; Oct. 3, £350; and the balance on Jan. 2 in the following year. (*Society of Accountants and Auditors; Intermediate.*)—*Answer*. *Jan*. 2, Balance of Account paid £292 11*s*. 4*d*. (including £6 11*s*. 4*d*. interest).

Exercise 14L.—The Midland Steel Company, Ltd., consigned to its Australian Agents—Murray & Co., of Sydney—125 tons of steel bars per s.s. *Tantallon Castle*. Murray & Co. paid for landing charges £15, carting £10, warehousing £6, insurance £1, and advertising £5. On July 1, they sold the steel by auction, as follows:—

		£	*s*.	*d*.	
25 tons	at	10	0	0	per ton.
30	,,	9	10	0	,,
30	,,	9	5	0	,,
40	,,	9	0	0	,,

They charged commission at 5 per cent. Make out in proper form the Account Sales rendered by Murray & Co. to the Midland Steel Company, Ltd., showing the balance due, for which Murray & Co. sent a Bill at 30 days after sight, and record the transactions in the Books of Murray & Co. (*Institute of Chartered Accountants; Intermediate.*)—*Answer*. Net Proceeds remitted by Bill, £1,076 17*s*. 6*d*.

CHAPTER XV

Exercise 15F.—A and B as partners possess £20,000 and £5,000 respectively in a firm. Their gross trading profit is £3,250. By their partnership agreement they divide profits in proportion to their holding after giving B £500 as manager and allowing 5 per cent. interest on capital. A's drawings were £700 and B's £100. Draw up a Profit and Loss Account and separate Partners' Accounts. *Answer*. Capital Accounts: (A) £20,000; (B) £5,000. Current Accounts: (A) £1,500; (B) £950.

Exercise 15G.—Samuel Smith and Robert Brown are partners in a manufacturing business. After providing 5 per cent. per annum interest upon their respective Capital Accounts, profits or losses are to be shared equally. Adjustments are to be made as follows—(1) Plant and Machinery Account is to be depreciated by

10 per cent. per annum. (2) Furniture and Fittings Account 5 per cent. (3) Provision of 5 per cent. on the debtors' balances for bad and doubtful debts. (4) Only three quarters' rent have been paid; the quarter's rent due on Dec. 25, not having been paid or passed through the books. Stock on Dec. 31 was valued at £800. The Trial Balance extracted on Dec. 31 is set out below Prepare Trading and Profit and Loss Accounts and a Balance Sheet, in which latter show the Partners' Accounts in detail.

Dr. Balances—		Cr. Balances—	
Smith's Drawings (including interest)	£450	S. Smith (Capital Jan. 1)	£2,000
Brown's Drawings (including interest)	400	R. Brown (Capital Jan. 1)	1,500
Stock (Jan. 1)	750	Sales	5,400
Furniture and Fittings	300	Purchases Returns	200
Plant and Machinery	500	Rent to date for premises sub-let	20
Goodwill	1,000	Reserve for Bad and Doubtful Debts	150
Purchases	2,300	Discount	10
Manufacturing Wages	520	Sundry Creditors	720
Carriage	100		
Salaries	350		
Rent	120		
Rates and Taxes	20		
Gas and Water	30		
General Expenses	270		
Sales Returns	150		
Bad Debts	80		
Cash at Bank	500		
Cash in hand	20		
Sundry Debtors	2,140		
	£10,000		£10,000

—*Answer.* Gross Profit £2,680; Net Profit £1,503. Capital Accounts: Smith £2,000; Brown £1,500. Current Accounts: Smith £401 10*s.*; Brown £426 10*s.*

Exercise 15H.—A, B, and C are in partnership. A's capital is £5,000, B's £3,000, C's £2,000. Profits are to be divided as follows: A one-half, B one-third, C one-sixth, after charging interest upon capital at 5 per cent. per annum and allowing salaries of £400 a year to each partner. The profits of the year available for division as above amount to £3,600. Show the division and adjust the Capital Accounts, taking into account that the drawings of each partner amounted to £300. (*Institute of Chartered Accountants; Intermediate.*) *Note:* Ignore interest on drawings.—*Answer.* Capital Accounts: (A) £5,000; (B) £3,000; (C) £2,000. Current Accounts: (A) £1,300; (B) £883 6*s.* 8*d.*; (C) £516 13*s.* 4*d.*

Exercise 15I.—C. Child and D. Dark were trading in partnership on January 1, under the firm name of Child & Dark. Child's Capital Account then showed a credit balance of £3,500, and Dark's Capital Account showed a credit balance of £1,000. Each partner was entitled to interest at 6 per cent. per annum on the balance of his Capital Account as stated at the beginning of each half-year. Dark was entitled to a salary of £200 per annum, and

the balance of profits was to be shared equally between the partners. (*a*) For the half-year ended June 30, the firm's Profit and Loss Account, before allowing for any of the provisions set forth above, showed a loss of £505. Each partner withdrew £500 on June 30; apart from this no withdrawals took place. Show the Partners' Capital Accounts for the half-year ended June 30, giving effect to the above directions. (*b*) The Profit and Loss Account for the half-year ended Dec. 31 showed a loss of £1,500, before allowing for any of the provisions to be made under the partnership arrangements. Show the Partners' Capital Accounts for that half-year also, giving effect to the directions stated above. No withdrawals took place during this half-year.—*Answer*. (*a*) Balances, June 30: Child, Cr. £2,735; Dark, Cr. £260; (*b*) Balances, Dec. 31: Child, Cr. £1,972 2*s*. 6*d*.; Dark, Dr. £477 2*s*. 6*d*. (See *N*., p. 828.)

Exercise 15J.—Jones and Robinson have been carrying on business in partnership during the year ended Dec. 31. No partnership deed was, however, executed. Capital was introduced into the business as follows: Jones £5,000, Robinson £1,000. Jones, in addition, advanced £1,000 to the firm as a loan, but no agreement was come to between the partners as to the payment of interest upon this loan. The profits for the year ended Dec. 31 amounted to £3,000, prior to provision for interest, if any, either upon Capital or Loan Accounts. The partners cannot agree, either as to the proportion in which the profits are to be divided, or upon the question of interest. They refer the matter to you, and agree to abide by the accounts prepared by you. How would you divide the profits for the year? (*Institute of Chartered Accountants; Intermediate.*)—*Answer*. Division of Profits: Jones £50 interest and £1,475 profits; Robinson £1,475 profits.

Exercise 15K.—The following is the Trial Balance of A. Jumble and T. Sale on Dec. 31:—

	Dr.	Cr.
A. Jumble, Capital Jan. 1		£12,000
T. Sale, " "		9,000
Machinery and Plant	£10,000	
Stock Jan. 1	5,500	
Purchases	22,000	
Salaries	1,000	
Wages	4,500	
Sales		35,000
Debtors	9,000	
Creditors		4,000
Carriage	470	
Rents, Rates, Taxes, and Insurance	1,200	
Discount	30	
A. Jumble, Salary	600	
T. Sale "	400	
Cash at Bankers	4,300	
Repairs	250	
Coal and Coke	1,100	
Bills Payable		750
Bills receivable	375	
Cash in hand	25	
	£60,750	£60,750

The stock at the end of the year amounted to £6,000. Prepare Trading, Profit and Loss, and Partners' Accounts, and Balance Sheet. Each partner is to have 5 per cent. interest on his Capital; the profits and losses are to be divided, two-thirds to A. Jumble and one-third to T. Sale; 7½ per cent. depreciation is to be written off Machinery and Plant; 2½ per cent. for discounts is to be allowed off Debtors and Creditors; £350 is to be reserved for Bad Debts; and Rates, amounting to £300, paid for the year ending March 31 in the following year have to be apportioned. (*Institute of Chartered Accountants; Final.*)—*Answer.* Net Profit £1,750; Balance Sheet Totals £28,450.

Exercise 15L.—Richard Black and William White enter into partnership upon equal terms, for the purpose of purchasing and continuing the old-established business of the late Robert Blank. The business was taken over from Blank's executors as on Jan. 1, 19—, as a going concern, upon the basis of the last certified Balance Sheet for the previous year, which was as follows:—

R. BLANK.

BALANCE SHEET, *December* 31, 19—.

Capital . . .	£26,593	Freehold Premises	. £14,200
Sundry Creditors .	3,482	Plant Account .	. 8,100
Reserve for Bad Debts	385	Sundry Debtors	. 3,420
		Stock on hand	. 4,140
		Office Furniture	. 600
	£30,460		£30,460

The purchase price was agreed at £28,000, which amount was found, in equal shares, by Black and White and duly paid over to Blank's executors. In addition, each partner paid £1,000 into the new firm's Banking Account to provide Working Capital, and it was agreed, before opening the new books, to reduce the valuation of the Plant (as shown above) by £500, the Stock by £450, and the Office Furniture by £200. Make the opening entries necessary to record the above transactions in the books of the new firm, and draw up a Balance Sheet showing the position of Messrs. Black & White at the commencement of the new partnership. (*Institute of Chartered Accountants; Intermediate.*)—*Answer.* Balance Sheet Totals £33,482.

Exercise 15M.—X, Y, and Z are in partnership, and on Jan. 1 their respective capitals were £4,000, £2,780, and £1,590. Y is entitled to a salary of £250 and Z to one of £200 per annum, payable before division of profits. Interest is allowed on capital at 5 per cent. per annum and is not charged on drawings. Of the net divisible profits X is entitled to 40 per cent. of the first £1,000, Y to 35 per cent. and Z to 25 per cent.; over that amount profits are shared equally. The profit for the year ended Dec. 31, after debiting partners' salaries but before charging interest on capital, was £2,317, and the partners had drawn £800 each on account of salaries, interest and profits. Prepare the closing entries of the Profit and Loss Account and the Partners' Accounts for the year. (*Institute of Chartered Accountants; Intermediate.*)—*Answer.*

Capital Accounts: (X) £4,000; (Y) £2,780; (Z) £1,590. Current Accounts: (X) £99 10*s.*; (Y) £238 10*s.*; (Z) £29.

Exercise 15N.—E, F, and G are in partnership, and at January 1 the credit balances of their Capital Accounts are £5,000, £1,800 and £1,000 respectively. After allowing 4 per cent. interest on their capital, profits are divisible as follows; E $\frac{5}{8}$, F $\frac{1}{4}$, G $\frac{1}{8}$ Their withdrawals for the year have been, E £500, F £230, G £280. (*Charge no interest on drawings.*) The Profit and Loss Account for the year ending Dec. 31 (before charging interest on capital) shows a loss of £720. Show by accounts the adjustment of these figures and the ultimate position of each partner.—*Answer.* Capital Accounts: (E) £5,000; (F) £1,800; (G) £1,000. Current Accounts: Debit Balances (E) £945; (F) £416; (G) £369.

Exercise 15O.—Messrs. Black and White were equal partners in a retail boot shop. They decided to retire and dispose of their business as on Dec. 31. Their Balance Sheet as on that date was as follows:—

BALANCE SHEET. *Dec.* 31.

B. Black, Capital A/c .	£3,050	Lease . . .	£1,250
W. White „ .	960	Fixtures . . .	220
Sundry Creditors . .	480	Sundry Debtors .	840
		Stock . .	2,060
		Cash at Bank . .	120
	£4,490		£4,490

The lease and fixtures were disposed of for £2,700, and the cash duly received. The book debts were collected, and realized £752. The stock was sold by auction, and produced £1,340 after payment of commission and expenses. The sundry creditors were paid off, £38 being allowed for discount. The expenses of realization amounted to £87. As book-keeper to the firm, prepare whatever accounts may be necessary to show the result of the realization and the amount received by each partner. (*London Chamber of Commerce; Senior.*)—*Answer.* Final Distribution: Black £3,236 10*s.* White £1,146 10*s.*

Exercise 15P.—A and B agree to dissolve partnership, the assets realize £12,800, and balance to this amount stands to credit of the firm at their bankers. A's capital is £2,800; B's capital is £2,100; B has also lent the firm £2,000. The amount of £3,900 is owing to trade creditors. A is entitled to $\frac{3}{4}$ of the net profits and B to $\frac{1}{4}$. Show the usual method of dividing the assets and the position of A and B at the close. (*Society of Accountants and Auditors; Intermediate.*)—*Answer.* Creditors and B's Loan are repaid, after which A receives £4,300, and B £2,600.

CHAPTER XVI

Exercise 16E.—The prospectus of Messrs. Black & Tan, Ltd., was publicly advertized on January 21, with the following loan and share issues:—***Debentures:*** 1,000 4 per cent. Debentures of

£100 each, the whole of which were offered and fully subscribed and paid up; *Preference Shares:* 20,000 6 per cent. Preference Shares of £5 each, the whole of which were offered and fully subscribed and paid up; *Ordinary Shares:* Nominal, 30,000 shares of £5 each. of which 10,000 shares were issued as fully paid to the vendors in part payment of the purchase price of the business. Of the remaining 20,000 shares, the public subscribed for 15,000 shares, the whole of which were, in due course, fully paid up, with the exception of the last call of £2 per share on 500 shares, which were subsequently forfeited by resolution of the Directors. Pass the necessary entries through the Company's books to record these transactions, and state how they should appear in the Balance Sheet. (*London Chamber of Commerce; Senior.*)—*Answer.* Debentures £100,000; Preference Shares £100,000; Ordinary Shares £122,500; Forfeited Shares £1,500.

Exercise 16F.—The business of Bruce Bros. & Co., was registered as a Limited Company with a nominal Capital of £400,000, divided into 4,000 shares of £100 each. 500 of these shares were issued as fully paid in part payment of the purchase price of the business. 3,200 of the remaining shares were allotted to the public, and fully called up. 25 4½ per cent. Debentures of £1,000 each were also issued and taken up. On Dec. 31, 19—, the following accounts remained open in the Company's books:—Share Capital Account £320,000; Fully Paid Shares Account £50,000; Land and Buildings £282,000; Sundry Creditors £18,485; Investments £8,450; Cash £6,200; Preliminary Expenses Account (balance) £1,250; Goodwill Account £15,000; Calls in arrear £525; Debenture Account £25,000; Stock Account (31st Dec.) £9,000; Plant Account £78,580; Sundry Debtors £28,000; Reserve Fund £8,000; Profit and Loss Account (undistributed balance) £7,520. Prepare a Balance Sheet as on Dec. 31. (*London Chamber of Commerce; Senior.*)—*Answer.* Balance Sheet Totals £428,480.

Exercise 16G.—The nominal capital of Messrs. William Pearson & Co., Ltd., consists of 50,000 shares of £1 each. On Dec. 31 the Ledger Balances of the Company were as follows:—Share Capital Account (issued 30,000 shares of £1 each with 10*s.* per share called up) £15,000; Unpaid Calls Account £150; Cash in hand £190; Sundry creditors £1,960; Sundry debtors £3,640; Cash at bank £1,150; Reserve Fund £4,000; Machinery and Plant Account £6,000; Mortgage Debentures Account (45 debentures of £100 each at 5 per cent. interest) £4,500; Freehold premises £11,500; Stock (Jan. 1) £8,800; Manufacturing wages £12,450; Salaries £1,230; Discount Account (amount allowed by creditors) £48; Carriage and cartage £395; Rates and taxes £111; Insurance £98; Sales £62,850; Trade expenses £382; Repairs £174; Purchases £41,800; Unpaid Dividends Account £252; Bad Debts Account £191; Office expenses £124; Interest paid on Debentures £225. Stock was taken as on Dec. 31, and was valued at £6,820. Before closing the accounts the following adjustments are necessary: Make a provision of 5 per cent. for bad and doubtful debts. Depreciation at the rate of 10 per cent. is to be written off the Machinery and Plant Account. Prepare Trading and Profit and Loss Accounts for the year ending Dec. 31. Take £1,000 to the Reserve Fund, and prepare a Balance Sheet

as on that date. (*London Chamber of Commerce; Senior.*)—*Answer.* Net Profit £2,956; Balance Sheet Totals £28,518.

Exercise 16H.—The Weyside Co., Ltd., was formed for the purpose of purchasing the old-established business of Richard Blank, and was duly registered with a nominal capital of £200,000, in 200,000 shares of £1 each. This capital was divided into 100,000 Ordinary Shares of £1 each, and 100,000 6 per cent. Preference Shares of £1 each. The whole of the Preference Shares and 52,000 of the Ordinary Shares were offered for public subscription, payable, in both classes of shares, as follows :—2*s.* 6*d.* per share on application, 2*s.* 6*d.* per share on allotment, 5*s.* per share Jan. 15 (1st call), 5*s.* per share Feb. 15 (2nd call), the balance as and when required. The whole of the shares offered to the public were applied for and allotted in due course. The balance of the Ordinary Share Capital was issued as fully paid to the vendor as part purchase price of his business. 500 Ordinary Shares applied for by John Smith, upon which the application money only had been paid, were subsequently forfeited in accordance with the Articles of Association. Pass the entries necessary to record the above transactions through the books of The Weyside Co., Ltd., and show how they would appear in the Company's Balance Sheet. (*London Chamber of Commerce ; Senior.*)—*Answer.* Preference Shares £75,000; Ordinary Shares £86,625; Forfeited Shares £62 10*s.*

Exercise 16I.—Give suitable rulings for the Share Ledger of a Limited Company and enter therein the following particulars :—John Smith, cork merchant, 440 Austin Friars, E.C., applied, on Jan. 2, for 150 Ordinary Shares of £1 each, and forwarded the necessary 2*s.* 6*d.* per share with his application. On Jan. 12 John Smith forwarded a further 2*s.* 6*d.* per share on being informed by the Company that 150 Ordinary Shares (numbered 1 to 150) had been allotted to him. On March 10 a call of 5*s.* per share was notified by the Company, and was duly paid by John Smith on his holding on March 15. On April 3 John Smith sold 100 of his shares (numbered 1 to 100) to William Brown, hatter, 486 Bond Street, W., at 12*s.* 6*d.* per share, the transfer being in due course accepted by the Company. (*London Chamber of Commerce ; Senior.*)—*Answer.* Balance of Shares held 50; 10*s.* per share paid.

Exercise 16J.—On March 1 the X Y Z Company, Ltd., purchased from X his business as a going concern, as from the previous Dec. 31. A Balance Sheet prepared upon that day showed the values of the assets acquired as follows :—Debtors £50,000; Stock-in-trade £25,000; Buildings £25,000; Plant, machinery, and furniture £18,000. The Company also agreed to take over the liabilities of X, which were guaranteed not to exceed £15,000. The purchase consideration was £120,000, payable £20,000 in cash, £50,000 in 6 per cent. Preference Shares of £1 each, and £50,000 in Ordinary Shares of £1 each. The shares were allotted, and the £20,000 paid to X on March 15, on which date 50,000 Ordinary Shares of £1 each were allotted to the public, a deposit of 5*s.* per share having been received thereon, while a further 5*s.* per share became due on allotment. Show the Journal entries necessary to record these transactions, and the Balance Sheet of

the Company as on March 15. (*Chartered Institute of Secretaries; Final.*)—*Answer.* Balance Sheet Totals £140,000.

Exercise 16K.—The M Company, Ltd., had a nominal capital of £25,000 in shares of £1 each, all issued and fully called up; but 500 of these shares had on Oct. 1 been forfeited for non-payment of a final call of 5*s.* per share. On May 1 following, A agreed to take these 500 shares from the Company and to pay £200 in consideration of which they are to be issued to him as fully paid. The shares were allotted and the money duly paid. You are required to show the Journal entries necessary to record the forfeiture and re-issue of these shares, and the Ledger Accounts affected thereby. (*Chartered Institute of Secretaries; Final.*) —*Answer.* Debit Forfeited Shares £375; Debit A £200; Credit Share Capital £500; Credit Premiums on Shares £75: Debit Cash £200; Credit A £200.

Exercise 16L.—Prepare a Balance Sheet of the Devonshire Iron Co., Ltd., at Dec. 31, from the following particulars :—Authorized Capital £200,000, divided into 100,000 Ordinary Shares of £1 each and 100,000 6 per cent. Cumulative Preference Shares of £1 each 50,000 Preference Shares have been issued and are fully called up. 50,000 Ordinary Shares have been issued and 15*s.* per share called up. The Authorized Debenture issue is £100,000. Preference Share Capital paid up £49,500; Calls on Preference Shares in arrear £500; Ordinary Share Capital paid up £37,400; Calls on Ordinary Shares in arrear £100; Debentures issued—100 Bonds of £100 each, bearing interest at 4½ per cent. per annum £10,000; Ordinary Shares—Calls paid up in advance £300; Cash at bank £1,650; Cash in hand £90; Trade creditors £3,860; Trade debtors £19,600; Stock in hand, Dec. 31, £12,350; Fixed plant and machinery £33,200; Freehold land and buildings £27,500; Loose plant and tools £9,600; Reserve Fund £6,000; Patterns and drawings £5,000; Investments on account of Reserve Fund £5,500; Reserve for bad and doubtful debts £980; Depreciation Fund for plant and machinery £1,600; Dividend on Preference Shares for the year £2,970; Interim Dividend on Ordinary Shares £1,870; Profit and Loss Account, balance after paying Interim Dividend on Ordinary Shares and Dividend on Preference Shares £4,850. (*Inst. of Chart. Accts.; Inter.*)—*Answer.* Balance Sheet Totals £113,510. *Note.*—It is assumed that debenture interest (£450) has already been debited to Profit and Loss Account.

Exercise 16M.—The International and British Trust, Ltd., with a paid-up capital of £10,000 in £1 Ordinary Shares and £10,000 in Preference Shares (preferential both as regards capital and income) decided to go into voluntary liquidation on June 1. First Mortgage 4 per cent. Debentures amounting to £15,000, and ordinary creditors' claims amounting to £12,066 2*s.* 8*d.* were then outstanding. The Assets, as set out below, realized the sums placed against them:—Cash at bank at date of liquidation £1,122 8*s.* 9*d.*; Investments sold: £8,000 2½% Consols £6,480, £1,000 Brazilian Government 5% Bonds £1,030, £5,000 Argentine Government 4% Bonds £4,550, £3,000 Costa Rica Government Stock £1,242 6*s.* 6*d.*, £10,000 Great Central Railway Deferred Ordinary Stock £1,150 10*s.*, £10,000 Greek Government 4% Rentes £3,900; Freehold

building sites at various places sold for £9,865 10*s*. 6*d*.; Loans to Subsidiary Companies recalled, realized £6,650; Bank deposits withdrawn £3,600; Bank deposits, interest received to date of withdrawal £77 8*s*. 9*d*. The expenses of liquidation amounted to £882 9*s*. 8*d*.; the Debentures were repaid, together with £719 12*s*. 2*d*. interest accrued due thereon to the date of repayment; the Preference Shares were paid off, and the balance of the cash in hand was paid to the ordinary shareholders as a first and final dividend on Dec. 29, 19—. Prepare a statement for submission to the shareholders showing the process of liquidation, and state what dividend was paid to the ordinary shareholders.—*Answer*. Return to Ordinary Shareholders, 2*s*. per £1 share.

Exercise 16N.—On July 1 the British Aerodrome Co., Ltd., issued a prospectus offering to the public 50,000 Ordinary Shares of the Company of £1 each, 2*s*. 6*d*. per share payable on application and 7*s*. 6*d*. on allotment; the balance to be called up as required. The list was closed on July 4, and on the 5th the Directors met to allot the shares, when it was found that applications had been received for 61,000 shares as follows :—

John Jones, London . . .	10,000	shares
D. O. George, Flint . . .	1,000	,,
Sir William Flyon, Dublin . .	5,000	,,
Henry Wing, Dover . . .	5,000	,,
Sundry persons	40,000	,,

The shares were allotted as follows :—John Jones, 5,000; D. O. George, none; Sir. W. Flyon, 1,000; H. Wing, 4,000; and sundry persons, 40,000.

The amounts payable on allotment were all received on or before July 15.

Rule a suitable form of Applications and Allotments Book and make the entries therein necessary to record the above transactions. (*Institute of Chartered Accountants; Intermediate.*)

Exercise 16O.—Prepare Journal Entries to record the following transactions in the books of a limited company :—200 shares of £1 each, 15*s*. called up, and on which 5*s*. per share had been paid, were forfeited and subsequently sold to X for £130, credited with 15*s*. per share paid up. (*Institute of Chartered Accountants; Intermediate.*)—*Answer*. Forfeiture: Debit Share Capital £150; Credit Call Account £100; Forfeited Shares £50. Resale: Debit X £130; Forfeited Shares Account £50; Credit Share Capital Account £150; Premium on Shares Account £30. Debit Cash £130; Credit X £130.

Exercise 16P.—Prepare a Balance Sheet at June 30, and Profit and Loss Account for the year ended that date, of the Shop Company, Ltd., from the following particulars, viz. :—The Authorized Share Capital is 80,000 5 per cent. Preference Shares of £1 each, and 40,000 Ordinary Shares of £1 each, of which 60,000 Preference and the whole of the Ordinary Shares have been issued and fully paid up. Bills receivable £270; bills payable £150; Premises Depreciation Account £4,000; cash at Bank and in office £210; house and office furniture £400; transfer fees £20; directors' fees, £600; doubtful debts reserve £300; Bank charges

and interest £250; stock at June 30, £28,500; Bank loan £3,000; law costs £200; trade debtors, £13,000; office expenses, rent, salaries, audit fee, etc. £2,970; change cash at shops £250; reserve £1,200; rents, insurance, etc., paid in advance £650; trade creditors £12,500; Profit and Loss Account, credit balance from last year, £850; freehold and leasehold premises £85,000; sundry creditors £280; horses, carts, vans, etc. £2,000; Trading Account (Profit) £12,000; bills receivable under discount £270. Provide 10 per cent. depreciation on house and office furniture and on horses, carts, vans, etc. Make a further reserve of £300 for Doubtful Debts and increase Premises Depreciation Account and Reserve Account by £1,000 each. What will be the balance of profit to carry forward after providing for the payment of the Preference Dividend and a Dividend of 5½ per cent. on the Ordinary Shares? (*Institute of Chartered Accountants; Intermediate.*) —*Answer.* Profit Balance forward £1,110; Balance Sheet Totals, £129,440.

Exercise 16Q.—From the following items, appearing in the Trial Balance of the books of a Company at the close of its financial year, prepare a Profit and Loss Account, giving effect to the further remuneration of the Directors as mentioned below—

	Dr. £	s.	d.	Cr. £	s.	d.
Directors' Fees	2,000	0	0			
Rent	500	0	0			
Salaries	350	0	0			
Law charges	50	0	0			
Ore sales				40,500	0	0
Advertising	25	0	0			
Interest				420	10	0
Transfer Fees				19	10	0
Income Tax	700	0	0			
Depreciation	300	0	0			
Audit Fee	40	0	0			
Sundry Expenses	155	0	0			

The Directors are entitled, under the Articles of Association, to appropriate and apply, by way of further remuneration, in any year in which a dividend is payable (assume the payment of a dividend) a sum equal to 5 per cent. upon the amount of the profits for each year. (*Institute of Chartered Accountants; Intermediate.*)—*Answer.* Balance down, after paying £1,841 further remuneration to directors, £34,979.

Exercise 16R.—On December 31 the Trial Balance of the Motor Engineering Company, Ltd., was as under :—

	£	s.	d.	£	s.	d.
5,000 Ordinary Shares of £1 each				5,000	0	0
100 5 per cent. Debentures of £10 each				1,000	0	0
Goodwill	2,000	0	0			
Freehold property	1,500	0	0			
Carried forward	3,500	0	0	6,000	0	0

	£	s.	d.	£	s.	d.
Brought forward	3,500	0	0	6,000	0	0
Machinery and tools	100	0	0			
Fixtures and fittings	20	0	0			
Hire cars	500	0	0			
Sundry debtors	2,500	0	0			
Stock of accessories, tyres, petrol, oil, etc., Dec. 31	250	0	0			
Cash at Bank	1,055	0	0			
Sundry creditors				153	0	0
Reserve for Bad debts, Jan. 1				80	0	0
Accessories, including tyres and tubes (used)	2,000	0	0			
Petrol, oil, etc (used)	550	0	0			
Cost of repairing cars (wages and materials)	750	0	0			
Charges to customers for repairing cars				800	0	0
Expenses of hire cars	200	0	0			
Wages (yardmen, etc.)	120	0	0			
Charges to customers for hire cars				330	0	0
Sales of accessories, including tyres and tubes				2,650	0	0
Cars purchased for resale	11,000	0	0			
Sales of petrol, oil, etc.				750	0	0
Sundry receipts (washing cars, charg-						0
ing batteries, etc.)				85	0	0
Car sales				12,000	0	0
Management expenses	450	0	0			
Garage rents				45	0	0
Repairs, plant, etc.	18	0	0			
Bad debts written off	50	0	0			
Carriage on cars sold	80	0	0			
Debenture Interest to Dec. 31	50	0	0			
Ordinary Share Dividend to Dec. 31 of previous year	500	0	0			
Profit and Loss Account (Balance from last year)				800	0	0
	£23,693	0	0	£23,693	0	0

Depreciation is to be written off machinery and tools at the rate of 20 per cent., fixtures and fittings 10 per cent., hire cars 25 per cent. The Reserve for Bad Debts is to be increased to 5 per cent. on the sundry debtors, and 25 per cent. of the Net Profit for the year is to be reserved for commission to the Manager.

Prepare complete accounts in the form which, in your opinion, is calculated to give the greatest amount of information to the Directors as to the working results of the business at a glance. (*Institute of Chartered Accountants; Final.*)—*Answer.* Net profit for year, £1,200; Balance Sheet Totals £7,653.

Exercise 16s.—Report fully in what respect the following Balance Sheet is not in accordance with the Companies Act, 1929, or established practice. Illustrate by re-drafting same in proper form.

Balance Sheet of F.A.Q. Co., Ltd., as on April 1, 19—.

Dr.			Cr.		
To Stock-in-Trade		£8,412	By Loan on Mortgage of Co.'s Property		£20,000
,, Book Debts		16,201	,, Trade Liabilities		16,412
,, Buildings		41,120	,, Capital: £120,000 in Shares of £1 each, all issued, 10*s.* paid up	£60,000	
,, Plant and Machinery		79,480	,, *Less* 8,000 Shares cancelled, 10*s.* paid	4,000	
,, Profit & Loss A/c.	£8,978				56,000
,, *Less* Shares cancelled	4,000		,, Reserve Fund		14,500
		4,978	,, Debentures issued		40,000
,, Cost of Issue of Debentures		641	,, Bills payable		8,420
,, Bills receivable not yet due		4,500			
		£155,332			£155,332

I have examined the above Balance Sheet and find same correct.

X.Y.Z., *Auditor.*

(*Society of Incorporated Acountants and Auditors; Intermediate.*)—*Answer.* Sides reversed, mortgage should be deducted from property charged, amount of authorized Capital not stated, bases of valuation of fixed assets not stated, authority for cancellation of shares (? surrender) not given, and practice of doubtful legality, auditor's certificate not according to statutory form. No cash balance or bank overdraft shown.

Exercise 16T.—From the following Trial Balance of the A. B. Engineering Company prepare a Profit and Loss Account and Balance Sheet as at December 31. The Nominal Capital of the Company is £20,000, divided into 4,000 shares of £5 each, of which 2,000 shares have been allotted.

	£	£
Share Capital Account		10,000
Stock-in-Trade, January 1	11,255	
Purchases	12,744	
Wages	13,964	
Call Account	100	
*Machinery and Plant Account	4,500	
Fixtures and Utensils	250	
Salaries	3,754	
Sales		38,568
Loose Tools	400	
Rent, Rates, Taxes and Insurance	720	
Repairs and Renewals	856	
Sundry Creditors		2,430
Bank Overdraft		5,000
Stationery, Advertising and Travelling	210	
Fuel	229	
Stores (Revenue Account)	180	
Gas and Water	110	
Carried forward	49,272	55,998

* Balance after charging off £500 on account.

	£	£
Brought forward . . .	49,272	55,998
Drawing Materials (Revenue Account)	60	
Postages and Telegrams . .	380	
Discounts and Allowances . .	1,030	
Bank Charges	191	
Depreciation of Machinery charged account	500	
Sundry Debtors	3,800	
Cash in hand	25	
Revenue Account, January 1 . .	500	
Bad Debts	40	
Patterns {Balance January 1, £80; Additions for year £120}	200	
	£55,998	£55,998

The value of the Stock-in-trade at Dec. 31 was £10,800. Before ascertaining the net profit, allow depreciation as follows—

On Patterns bought during the year .	50 per cent.
On other Patterns	10 per cent.
On Machinery and Plant (on £5,000) .	15 per cent.
On Fixtures	5 per cent.
On Loose Tools	5 per cent.

Provide Reserve for Discounts on Sales at the rate of 2 per cent. on the outstanding balances. (*Society of Incorporated Accountants and Auditors; Intermediate.*)—*Answer.* Net Profit = £2,718 10*s.*; Balance Sheet Totals = £19,548 10*s.*

CHAPTER XVII

Exercise 17E.—From the following particulars write up J. Wilkinson's Town Sales Ledger in self-balancing form; show also the Sales Ledger Account in his General Ledger, his Cash Book, Day Book, and Returns Inwards Book; the three latter books are to contain additional analysis columns relating to a Country Sales Ledger, but the entries to be made in them are to be only those (given below) relating to the Town Sales Ledger.—*Town Sales Ledger Balances Oct.* 1; Debtors: A. Alton, 771 Tottenham Court Road, W., £118 2*s.*; B. Barber, 145 Eastcheap, E.C., £64 9*s.* 8*d.*; C. Cape, 177 Lothbury, E.C., £177 2*s.* 9*d.*; D. Davies, 199 West Smithfield, E.C., £1,022 11*s.* 4*d.* *Transactions for the month of October:* Oct 3, received cash from B. Barber £50; Oct. 4, received cash from C. Cape £175, allowing C. Cape discount £2 2*s.* 9*d.*; Oct. 5, sold goods to A. Alton £142 8*s.* 9*d.*; Oct. 6, sold goods to C. Cape £221 4*s.* 4*d.*; Oct. 8, received goods returned by C. Cape, allowing him full invoice price therefor £8 2*s.* 9*d.*; Oct. 10, sold goods to D. Davies £211 4*s.* 8*d.*; Oct. 14, D. Davies paid me cash £1,015, allowed him discount £7 11*s.* 4*d.*; Oct. 15, sold goods to B. Barber £118 8*s.* 10*d.*; Oct. 17, received from B. Barber his acceptance at 3 m/d £132, allowed him discount 18*s.* 6*d.*; Oct. 20, received cash from A. Alton £100; Oct. 21, sold goods to E. East, 325 Cornhill, E.C., £36; Oct. 22, received

cash from E. East £35, allowing him discount thereon £1; sold goods to A. Alton £222 4*s*. 9*d*.; Oct. 24, sold goods to B. Barber £214 8*s*. 10*d*.; sold goods to C. Cape £32 4*s*. 6*d*.; Oct. 25, B. Barber returned goods as not up to sample, allowed him full invoice price therefor £17 7*s*. 2*d*.; Oct. 27, received from C. Cape cash £25; received from C. Cape his acceptance at 2 m/s £200; Oct. 28, A. Alton this day made a composition with his creditors, paying them 10*s*. in the £: received cheque for £191 7*s*. 9*d*., write off the remainder of A. Alton's debt £191 7*s*. 9*d*.; sold goods to E. East £10 12*s*. 6*d*.; Oct. 29, sold goods to F. Fry £76 4*s*. 9*d*.—*Answer*. Balance of Sales Ledger Adjustment Account £515 9*s*. 8*d*.

Exercise 17F.—The undermentioned particulars have been extracted from the books of Messrs. James Ogden & Co., who keep only one Sales Ledger. You are required to prepare the relative "Sales Ledger," and "General Ledger" Adjustment Accounts as on Dec. 31:—June 30, debtors' balances £28,394 12*s*. 6*d*.; Dec. 31, transactions for the half-year to date: sales to debtors £58,421 10*s*. 8*d*.; returns from debtors £691 12*s*.; cash received from debtors £41,344 8*s*. 6*d*.; discounts allowed to debtors £1,504 9*s*. 3*d*.; acceptances received from debtors £4,210 1*s*. 2*d*.; acceptances returned dishonoured £550; bad debts written off £942 10*s*.; sundry charges debited to debtors £29 4*s*. 6*d*. (*Institute of Chartered Accountants; Final.*)—*Answer*. Balance Dec. 31, £38,702 6*s*. 9*d*.

Exercise 17G.—From the following particulars, extracted from the books of J. Child & Co., who keep only one Bought Ledger, prepare the Bought Ledger Adjustment Account in their General Ledger and the General Ledger Adjustment Account in their Bought Ledger:—July 1, total creditors' balances outstanding in Bought Ledger £13,122 6*s*. 8*d*.; total of sundry small debit balances (for returns, etc.) on various persons' accounts in Bought Ledger £22 1*s*. 1*d*.; Dec. 31, total purchases on credit for half-year £60,028 9*s*. 4*d*.; total cash paid creditors during half-year £30,226 11*s*. 3*d*.; discount and allowances received from creditors during half-year £621 4*s*. 8*d*.; acceptances given to creditors during half-year £40,050; goods sold to creditors during half-year and settled by contra account £34 9*s*. 8*d*.; total of purchases from creditors returned to them as unsatisfactory during the half-year £212 8*s*. 5*d*.—*Answer*. Balance of Adjustment Account £1,984 0*s*. 11*d*.

Exercise 17H.—Rule a form of Visitors Ledger on the columnar system for the Seaview Hotel, and enter in it the following transactions for Nov. 28:—Visitor, A. Back, room No. 1: room 4*s*. 6*d*., breakfast 2*s*. 6*d*., lunch 3*s*. 6*d*., cash paid 10*s*. 6*d*.; Visitor, C. Rowe, room No. 2: room 5*s*. 6*d*., dinner 5*s*., breakfast 2*s*. 6*d*., cigars 1*s*., wines 3*s*., spirits 1*s*., amount carried forward to next day 18*s*.; Visitor, A. Pike, room No. 3: room 4*s*., breakfast 2*s*. 6*d*., cigar 6*d*., liqueur 6*d*., cash paid 7*s*. 6*d*.—*Answer*. Balance forward, C. Rowe 18*s*.

Exercise 17I.—The East Clayshire Waterworks Co. supply water to the inhabitants of Claytown for an annual charge of 5 per cent. on the rental value of each house supplied, plus additional charges for extra supply for garden purposes, etc. The 5 per

cent. charge is payable in two equal half-yearly instalments of $2\frac{1}{2}$ per cent. each on March 1 and Sept. 1 in each year respectively. From these and the following particulars prepare in tabular form the Water Company's Ledger for the consumers living in Southfields Avenue for the half-year commencing March 1, including in every case the water charges becoming due on that date:—Southfields Avenue, No. 1, rental value £38, arrears brought forward 19*s*., cash received £1 18*s*., Aug. 15; No. 2, rental value £40, arrears brought forward £2, cash received £3, May 11; No. 3, rental value £42, arrears nil, cash received £1 1*s*., March 3; No. 4, rental value £40, arrears nil, cash received 15*s*., May 12, allowance made for period while empty 5*s*.; No. 5, rental value £45, arrears nil, charge for garden hose supply 5*s*., cash received £1 7*s*. 6*d*., July 18; No. 6, rental value £40, arrears nil, charge for excess supply 2*s*. 6*d*., cash received nil, allowances nil; No. 7, rental, value £42, arrears nil, cash received £1 1*s*., March 3; No. 8, rental value, £40, arrears nil, cash received £1, March 3; No. 9 rental value £50, arrears brought forward £1 5*s*., charge for excess supply 2*s*. 6*d*., cash received £2 10*s*. Aug. 22, allowance granted 2*s*. 6*d*.—*Answer*. Only balance forward Aug. 31, No. 6, £1 2*s*. 6*d*.

Exercise 17J.—The X.Y. Company, Limited keep their Ledgers on the "self-balancing" system. On December 31 the Sales Ledger Account in the Private Ledger showed a debit balance brought down on January 1 previous of £4,031. During the year the total Sales were £35,422, and Returns inwards were £625. The Cash received during the year and posted to the Sales Ledger was £31,125. The Discounts allowed on Accounts in the Sales Ledger amounted to £1,314. Transfers from the Bought Ledger to the Cr. of Sales Ledger Accounts, £720. Transfers from the Sales Ledger to the Dr. of Bought Ledger Accounts, £1,052. Bills receivable posted to the Sales Ledger, £2,035. Write up the Sales Ledger Account and show the balance brought down at Dec. 31. (*Institute of Chartered Accountants; Intermediate.*)—*Answer*. Debit Balance of Sales Ledger Account, Dec. 31, £2,582.

CHAPTER XVIII

Exercise 18E.—From the following particulars prepare Manufacturing and Profit and Loss Accounts showing separately the gross and net profits made by the "Plate" and "Cutlery" Departments respectively:—Jan. 1, Stock: plate £1,400, cutlery £1,650; purchases: plate £8,624, cutlery £2,055; sales: plate £18,500, cutlery £9,250; returns outwards: plate £125, cutlery £108; wages: plate £5,429, cutlery £4,612; Dec. 31, stock: plate £135, cutlery £355, salaries £1,543; rent, rates and taxes £655; general expenses £783. The three latter items are to be apportioned between the two departments according to the total of the sales effected by each.—*Answer*. Gross Profit: Plate £3,307; Cutlery £1,396; Net Profit: Plate £1,319 13*s*. 4*d*.; Cutlery £402 6*s*. 8*d*.

Exercise 18F.—The Olympian Patent Medicine Co. manufacture two varieties of patent medicine, viz. "Hercules" ointment and "Jupiter" pills. From the following particulars prepare the

Company's Trading and Profit and Loss Account for 19—, showing the gross and net profits or losses on each class of manufacture: —Stock of drugs on hand Jan. 1: ointment £600 10*s*., pills £80 2*s*. 2*d*.; stock of bottles, wrappers, and labels: Jan. 1: ointment £125 15*s*. 6*d*., pills £15 2*s*. 9*d*.; Dec. 31: purchase of drugs: ointment £884 2*s*. 9*d*., pills £246 8*s*. 2*d*.; bottles, wrappers, and labels: ointment £625 8*s*. 2*d*., pills £122 8*s*. 4*d*.; manufacturing expenses: ointment £1,146 2*s*. 6*d*., pills £422 8*s*. 6*d*. Sales: ointment 256,020 boxes at 6*d*. each, pills 42,114 boxes at 1*s*. each; stock of drugs, bottles and wrappers on hand at December 31, ointment £81 18*s*. 11*d*., pills £81 4*s*. 11*d*.; advertizing £2,484 9*s*.; postage, stationery, and printing £207 0*s*. 9*d*.; salaries £414 1*s*. 6*d*.; rent, rates and taxes, and general expenses £621 2*s*. 3*d*. Apportion the four last-mentioned expenses between the two classes of goods according to the *number of boxes* of ointment or pills *sold*.—*Answer*. Gross Profit: Ointment £3,100 10*s*.; Pills £1,300 9*s*.; Net Loss: Ointment £99 15*s*.; Net Profit: Pills £774 0*s*. 6*d*.

Exercise 18G.—A company having its head office in London owns a factory in South Africa. During the year 19— £10,000 in cash has been remitted from London to the factory, and bills for £5,000 drawn by the manager in South Africa on the head office have been accepted. At the end of the year it is found that there has been a loss on the working of the factory of £2,000, which is transferred to the head office. Show the entries in the head office books recording these transactions. (*Institute of Chartered Accountants; Intermediate.*)—*Answer*. Debit balance on factory account, Dec. 31, £13,000.

Exercise 18H.—Messrs. J. Silkstone & Sons, coal merchants, of London, opened a branch business at Maidstone on January 1, 19—. The Trial Balance of the books of the Maidstone branch as on December 31, was as follows :—

TRIAL BALANCE.

	£	*s.*	*d.*	£	*s.*	*d.*
Head Office Adjustment Account				1,574	0	0
Coal Sales				1,750	0	0
Sundry Debtors . . .	640	0	0			
Horses, Carts, etc. . . .	280	0	0			
Salaries, Rent, and Expenses .	620	0	0			
Cash in hand	78	0	0			
Coal from Head Office (as invoiced)	1,748	0	0			
Sundry Creditors . . .				42	0	0
	£3,366	0	0	£3,366	0	0

The stock of coal at Maidstone on December 31 was valued at £984. Prepare a Profit and Loss Account showing the result of the working of the Maidstone branch for the year ending December 31, and draft the entries necessary to incorporate the above figures in the head office books. (*London Chamber of Commerce; Senior.*)—*Answer*. Branch Profit, £366; Final Balance of Head Office Account Cr. £1,940.

Exercise 18I.—From the following Trial Balances prepare the Balance Sheet of Holmes, Ltd., for submission to its shareholders.

Holmes, Ltd. LONDON TRIAL BALANCE. *June* 30, 19—.

	£	£
Share Capital (5,000 £1 Shares)		5,000
Sundry Debtors . . .	2,562	
Freehold Premises . . .	1,223	
Cash at Bank . . .	142	
Leeds Branch . . .	3,349	
Sundry Creditors . . .		1,714
Profit and Loss Account Balance		562
	£7,276	£7,276

Holmes, Ltd. LEEDS TRIAL BALANCE. *June* 30, 19—.

	£	£
Stock	1,982	
Furniture and Fittings . .	321	
Sundry Debtors . . .	1,589	
Profit and Loss Account .		685
Cash at Bank . . .	566	
London Office . . .		3,124
Bills Payable . . .		649
	£4,458	£4,458

The London office remitted £125 to the Leeds branch on the afternoon of June 30 : the Leeds branch did not receive the money until the morning of July 1. The London office paid on June 30 £100 on account of the Leeds branch for goods purchased for cash on the latter's behalf : the Leeds branch did not receive the goods until the 3rd of July or the advice of their purchase until the 2nd of July.—*Answer.* Balance Sheet Totals £8,610.

Exercise 18J.—J. W. purchased in Berne from M. de Marsac 100 dozen of wine at 40 francs per dozen, and a bill at 60 days was drawn upon him for the amount and accepted. The entries of the transaction were made by J. W. through his Journal in English money at the rate of exchange of 25 francs per £. The bill was afterwards paid by J. W.'s bankers, the rate of exchange at which he was charged being 25.25 francs per £. Journalize the above transactions and show the account with M. de Marsac in J. W.'s ledger. (*Institute of Chartered Accountants; Intermediate.*) —*Answer.* Original entry for purchase £160; Exchange profit on settlement £1 11*s.* 8*d.*

Exercise 18K.—The following is the Trial Balance of the Calcutta branch of a London house on 31st December, 19—.

	Dr.	Cr.
Stock on hand Jan. 1 . .	Rs. 5,000	
Purchases	30,000	
Sales		Rs. 45,000
Sundry Debtors	10,000	
Carried forward . . .	45,000	45,000

	Dr.	Cr.
Brought forward	45,000	45,000
Sundry Creditors		7,000
Bills Receivable.	3,000	
Bills Payable		2,000
Wages and Salaries	2,000	
Rent, Rates, and Insurance .	1,500	
General Expenses	600	
Fixtures and Furniture . .	2,000	
Cash at Bank	13,000	
Cash in hand	400	
London Office		13,500
	Rs. 67,500	Rs. 67,500

Stock on hand December 31, Rs. 8,000.
Rate of Exchange December 31, Rs. 16.*
Average rate for year, Rs.15.*
Rate Jan. 1, Rs. 14½.*
Calcutta Branch account in London books £896 10*s*. 6*d*.

Convert the above figures into sterling for inclusion in Head Office books, and state the principles which guide you in so doing. (*Institute of Chartered Accountants; Final.*)—*Answer.* Trial Balance Totals in sterling £4,459 0*s*. 6*d*.; Closing stock £500.

Exercise 18L.—From the following Trial Balances prepare the Balance Sheet of the San Paulo Trading Syndicate, Ltd., as at June 30, 19—.

SANTOS TRIAL BALANCE.

	Dr. Milreis	Cr. Milreis
Cash at Bank of Brazil, Santos	7,500	
Stock of Goods on hand . .	75,500	
Sundry Debtors	68,500	
Bills Payable		17,000
Furniture and Fittings, Balance at Jan. 1	2,000	
Furniture and Fittings, additions from Jan. 1 to June 30 .	1,500	
Profit and Loss Account, balance, being net profit for the half-year ended June 30 .		14,000
London Office Account, £7,767 3*s*. 9*d*.		124,000
	Ms. 155,000	Ms. 155,000

LONDON TRIAL BALANCE.

	£ s. d.	£ s. d.
Share Capital issued— 10,000 £1 shares, 15*s*. per share paid		7,500 0
Cash at Bank	85 0 11	
Carried forward	85 0 11	7,500 0

* Rupees per pound sterling.

	£	s.	d.	£	s.	d.
Brought forward . . .	85	0	11	7,500	0	0
Santos Office Account, Ms. 124,000 at actual remittance rates	7,767	3	9			
Profit and Loss Account, balance brought forward from last year				352	4	8
	£7,852	4	8	£7,852	4	8

Current Rate of Exchange Jan. 1, 15*d.* per milreis.
Do. do. June 30, 16½*d.* per milreis.
Average rate for first half of year, 16*d.* per milreis.
Furniture and Fixtures on hand at Jan. 1 were bought at 15*d.* per milreis; the additions during the first half of the year were bought at 16*d.* per milreis.—*Answer.* Profit on Exchange £771 7*s.* 1*d.*; Balance Sheet Totals £10,725 13*s.* 5*d.*

Exercise 18M.—The Southern Confectionery Company, Limited, London, has a branch at Bristol. Goods are invoiced to the Bristol branch at selling prices, being cost plus 25 per cent.

The Bristol branch keeps its own Sales Ledger and transmits all cash received to London daily. All expenses are paid from London.

From the following details prepare a Profit and Loss Account of the Bristol branch for the year 19—.

	£
Stock, Jan. 1 (at invoice prices)	1,250
Stock, Dec. 31 (at invoice prices) .	1,500
Sundry Debtors, Jan. 1 . .	700
Sundry Debtors, Dec. 31 . .	900
Cash Sales for the year . . .	5,400
Credit Sales for the year . .	3,500
Cash received for Ledger Accounts	3,300
Goods invoiced from London .	9,100
Rent and Rates (paid from London)	400
Wages (paid from London)	340
Sundry Expenses (paid from London) . .	80

(*Institute of Chartered Accountants; Intermediate.*)—*Answer.* Profit, £1,000.

CHAPTER XIX

Exercise 19E.—Mr. John Black and Mr. Edward Thompson agree to import Swedish timber into this country. On May 1 they open a Banking Account under the style of "Black & Thompson" for £2,400, towards which John Black contributes £1,400 and Edward Thompson £1,000, they dividing profits or losses *pro rata* to their cash contributions (say $\frac{7}{12}$ths and $\frac{5}{12}$ths respectively). They remit to their agent in Sweden £1,800 to pay for the timber purchased out there, and, later on, a further £100 in settlement of his account. The Freight, Insurance, and Dock

Charges are all paid on this side, and, together, amount to £400. On Dec. 31 the various sales have realized £2,400 net, which enables them to repay themselves (taking no account of interest) the cash respectively advanced by them on May 1. The venture is then closed by John Black taking over the balance of timber unsold for £380, and for which he pays a cheque into the Banking Account. How much Cash Balance does this leave for final division by way of profit, and how is the same apportioned between John Black and Edward Thompson as their respective share of profit thus realized on the venture? (*Institute of Bankers; Final, April.*)—*Answer.* Balance of Cash: £480; Divisible: Black £280; Thompson £200.

Exercise 19F.—Brown and Jones engage in a joint speculation in timber, the former being in Russia and the latter in England. A banking account in their joint names is opened on Feb. 10 19—, Brown pays in £500 and Jones £660. The following are the transactions:—Feb. 15, bought cargo in Riga from L. Sandherr valued £632, less discount at 5 per cent. £600 8*s*., accepted Sandherr's draft at 3 m/d £600 8*s*.; Feb. 17, paid expenses loading at Riga £28 9*s*. 6*d*.; paid freight to Hull £98 17*s*. 9*d*.; March 23, sold Robinson logs £165 18*s*., received cash, less 2½ per cent. £157 12*s*. 2*d*.; March 24, bought from M. Reimann for cash cargo of timber net £933; April 29, paid shipping charges and freight £213; April 24, sold M. Johnson deals net £337, received his acceptance at 2 months £337; May 17, sold J. James cargo purchased from Reimann net £1,260; received his acceptance at one month £1,260; June 30, stock, balance of Sandherr's cargo, valued at £311. On June 30 the speculation was closed by Jones taking over the stock at the agreed value of £311, less 10 per cent. Adjust the accounts as between the partners at June 30, allowing interest on the amounts deposited at 5 per cent. (*Institute of Chartered Accountants; Intermediate.*)—*Answer.* Final Capitals: Brown £578 16*s*. 9*d*.; Jones £462 0*s*. 2*d*.

Exercise 19G.—The Coal Mine Co., Ltd., took a lease of a colliery from G. Risch for 99 years from Sept. 29, 19—, at a ground rent of £50 a year, payable half-yearly, and a royalty of 6*d*. per ton with a minimum royalty of £80 a year, payable half-yearly. During the first year the Company raised 2,500 tons, and during the second year ended Sept. 29, 4,000 tons. The several amounts due to G. Risch were paid 21 days after becoming due. Write up both Personal and Nominal Accounts, and balance them at the end of each year. (*Institute of Chartered Accountants; Final.*)—*Answer.* Royalties transferred to P. and L. Account, Sept. 30, 1st year £62 10*s*.; Sept. 30, 2nd year, £100; Ground Rents transferred to P. and L. Account, £50 each year.

Exercise 19H.—A lead mine is leased by A to B for a period of years at a dead rent of £300 per annum, merging into a royalty of 10*s*. per ton on all ore gotten. In the first five years this tonnage is as follows:—1st year 958 tons; 2nd year 234 tons; 3rd year 615 tons; 4th year 430 tons; 5th year 28 tons. B pays on account in the first year £300, and in the second year £50 (*and has made no further payments to A during the five years*). Prepare the necessary personal and nominal accounts in B's Ledger, showing these

transactions, and bringing down balances, if any. (*Society of Accountants and Auditors; Intermediate.*)—*Answer.* (Assuming no power of recouping royalties and that lessee bears loss if any year's workings are less than dead rent quota) B owes A £1,336 10*s.* at end of period.

Exercise 19 I.—A colliery is worked under a 30-years' lease at a royalty of 8*d.* a ton, with a minimum yearly rent of £1,000, with power to recoup short workings. In the first year 25,000 tons are worked, in the second 26,500, in the third 24,600, in the fourth 31,000, and in the fifth 30,500 tons. How would you deal with the respective year's royalties both in Profit and Loss and in the Balance Sheet? (*Institute of Chartered Accountants; Intermediate.*)—*Answer.* Royalties, 1st year, £833 6*s.* 8*d.*; 2nd year, £883 6*s.* 8*d.*; 3rd year, £820; 4th year, £1,033 6*s.* 8*d.*; 5th year, £1,016 13*s.* 4*d.*

Exercise 19 J.—From the following particulars make out the Statement of Affairs of Thos. F. Sellers for submission to his creditors, assuming that the Stock, Doubtful Debts, and Fixtures will realize 50 per cent. of the value mentioned. Good book debts £3,872; Doubtful £1,500; Bad £2,500; Unsecured creditors £7,278; Bills payable £1,200; Stock £1,200; Fixtures, etc. £300; Partially secured creditors £872; Estimated value of securities £550; Cash at Bank £150; Preferential creditors £267; Creditors fully secured (estimated value of securities £2,500) £2,200. (*National Union of Teachers; Advanced.*)—*Answer.* Deficiency £3,245.

Exercise 19 K.—Prepare Statement of Affairs as on March 31 of A. Dunn, for the purposes of a meeting of creditors :—Cash in hand £5; Fixtures and utensils (cost £80) valued at £60; Book debts £100 (Good £65, Doubtful £20, Bad £15), estimated to produce £75; Household furniture (cost £300) £280; Stock on hand valued at £150, less 10 per cent.; Life Policy for £500 held as security by bankers, surrender value about £150; Trade creditors £1,250; Banker's claim £420, holding Life Policy (see above) for £500; Rent owing (preferential) £30; Rates (preferential) £12. (*Society of Accountants and Auditors; Intermediate.*)—*Answer.* Deficiency £1,007.

Exercise 19 N.—Messrs. X, Y & Co., wholesale furniture dealers sold their business to a limited company on Jan. 1, for £60,000. The company acquired for that sum the business as a going concern with all its assets, but assumed the firm's current liabilities on Dec. 31 previous, amounting to £5,000. The Balance Sheet of the firm on Jan. 1 was as follows :—

Liabilities.		*Assets.*	
Current Trade Creditors	£5,000	Cash at Bank . .	£2,000
Partners' Capital Accounts . . .	38,000	Stock on hand . .	15,000
		Sundry Debtors .	25,000
		Furniture, Fixtures, etc.	1,000
	£43,000		£43,000

The firm's profits for the five previous years were as follows :—1st year £3,200, 2nd year £2,700, 3rd year £3,300, 4th year £3,300, 5th year £4,200. During the 6th year a valuer was engaged by the executors of a deceased shareholder to report to them privately as to the value of the shares held by their testator. The valuer stated that, in his opinion, " 3½ years' purchase of the average profits for the last three years previous to the date of sale would have been a fair price for the Company to pay for the goodwill of the business acquired from Messrs. X, Y & Co." Upon the above data state how much in excess of the fair market price the Company paid to Messrs. X, Y & Co. for the goodwill of their business.—*Answer*. £9,400.

ADDITIONAL TO CHAPTER X

Exercise 10Q.—At a recent examination the understated Balance Sheet was sent in by a candidate. Have you any criticism to offer upon it?

BALANCE SHEET.

Messrs. A & B. *December 31st, 19—*

Assets.	£	£	Liabilities.	£	£
Plant Account .		4,000	A's Capital .	3,000	
Debtors .	8,200		Add Interest	150	3,150
Less Reserve (Dec. 31) .	410		B's Capital .	2,000	
		7,790	Add Interest	100	2,100
A's Drawings .		300	Creditors .		9,800
B's Drawings .		200	A's Profits .		1,800
Repairs . .		120	B's Profits .		1,800
Stock (Jan. 1)	3,200		Depreciation on Plant		200
„ (Dec. 31)	4,000		Reserve for Debtors (Jan. 1) .		350
		7,200			
Cash . .		420	Balance .		830
		£20,030			£20,030

(*London Chamber of Commerce; Senior.*)

Answer. Sides reversed, deduct depreciation from plant. Debtors' reserve wrongly treated, deduct drawings from capital accounts, repairs not an asset, stock wrongly treated, add profits to capital accounts, etc.

Exercise 10R.—The directors of a limited company issued the understated account to their shareholders. Do you approve of this document? If not, what amendments do you suggest?

BALANCE SHEET.

December 31*st*, 19—.

Dr.	£	Cr.	£
To Share Capital .	500,000	By Land, Buildings, Plant, Stock, Furniture, and Goodwill .	1,007,000
„ Reserve Fund .	100,000	„ Debtors, Cash, Investments, and Sundry Debtor Balances .	166,000
„ Sinking Fund for Leases . .	10,000		
„ Mortgages and other outstanding Liabilities	535,000		
„ Balance carried down	28,000		
	£1,173,000		£1,173,000

	£		£
To Interim Dividend paid . .	25,000	By Balance brought down . .	28,000
„ Balance carried forward .	3,000		
	£28,000		28,000

(*London Chamber of Commerce; Senior.*)

Answer. All assets grouped together in a manner that gives insufficient information and may mislead. Mortgages should be deducted from property charged. Basis on which assets are valued not stated. How is item "Balance carried down" arrived at? Appears to be a statement of affairs arrived at by single-entry methods.

CHAPTER XXII

Exercise 22G.—After writing up the Profit and Loss Account the general ledger balances of the Conservative Bank, Ltd., as on Dec. 31, 19—, were as follows:—Paid up capital £1,500,000: cash at Bank of England and in hand £2,600,980; Customers' Current and Deposit Accounts £17,580,000; Bills discounted, loans and advances £14,482,000; Freehold premises £380,000; rebate on bills discounted, not yet due, carried to next account £24,300; Reserve Fund £1,200,000; English Government Securities £1,250,000; other Government Securities £520,000; Profit and Loss Account (undistributed balance) £110,680; Securities pledged with public bodies £81,000; Indian and Colonial Securities £1,101,000. On the same date (Dec. 31) the acceptances on behalf of customers, and for which they were liable appeared in the "Acceptances Book" of the bank at £1,725,420. Prepare a Balance Sheet as on Dec. 31. (*London Chamber of Commerce; Senior.*)—*Answer.* Balance Sheet Totals £22,140,400.

CHAPTER XXIII

Exercise 23a.—On Dec. 31, 19— the balances of the General Ledger of the Holdfast Assurance Company were as follows :— Funds as on Jan. 1, £1,557,060; Premium Account £142,000; Claims Account £70,050; Annuities paid £1,260; Commission Account £6,032; Interest and Dividends Account £51,000; Transfer Fees Account £105; Surrenders Account £11,201; Management Expenses Account £18,670; Shareholders Dividends Account £2,500; Claims admitted but not paid Account £7,200; Sundry Creditors Account £3,980; Mortgages in the United Kingdom £1,201,450; Loans on Policies £50,060. Investments :—Government Stocks £204,000; British Railways £138,200; House Property £7,500; Agents' Balances £12,200; Outstanding Premiums £9,200; Outstanding Interest £12,040; Cash at Bank £16,982. Prepare Revenue Account and Balance Sheet as on Dec. 31, 19—.

Prepare the necessary accounts in the form required under the Assurance Companies Act 1909, and state what further details are necessary in order to comply with the Act.

(*London Chamber of Commerce; Senior.*)

Answer. Funds at end of year : £1,640,452; Balance Sheet Totals £1,651,632.

Note.—The answer to Ex. 15I on p. 759 is based on the assumption that the Current Accounts were to be closed into the Capital Accounts at the close of each half-year.

CHAPTER XXIX

EXAMINATION PAPERS

ROYAL SOCIETY OF ARTS EXAMINATIONS, APRIL 1930.

Stage I.—Elementary.

[2½ hours allowed.]

(Only one question to be answered, but both exercises to be worked.)

1. George McArthur is commencing business as a dealer in Gramophone and Radio accessories. His business will consist of both credit and cash sales and purchases. Submit a list of the books you would recommend McArthur to keep.

2. Describe briefly the information you would expect to obtain from the Balance Sheet of a partnership firm.

Exercise I.

A. Pomona was in business as a Fruit and Flower Dealer. On January 1, 1930, his position was as follows: Cash at Bank, £357 7*s*. 8*d*.; Shop Fittings and Furniture, £352; Cash in hand, £14 6*s*. 4*d*.; Stock, £227 12*s*. 10*d*.; Creditor: S. Pippin, £126 10*s*. Debtors: M. Philimore, £15 8*s*. 6*d*.; B. Brownlees, £9 14*s*. 8*d*.

Open the accounts necessary to record the above particulars in the ledger and post thereto, through the proper subsidiary books, the following transactions:—

1930.

Jan. 2. Bought, on credit, from H. Van Hillegom, 6,000 Hyacinth bulbs, at 83*s*. per 1,000, and 10,000 Bedding Tulip bulbs at 51*s*. per 1,000. Packing charges and freight £1 12*s*. 0*d*. The whole invoice subject to 15 per cent. trade discount.

„ 4. Drew and cashed cheque, £25, for Office purposes. Paid, in cash, Wages, £5 2*s*. 7*d*.; Railway Carriage, £1 2*s*. 4*d*., and Paper Bags and String, £1 5*s*. 9*d*.

„ 6. Sold, on credit, to Crown Hotel Co., Ltd., 10 Bushels Cox's Orange Pippins at 21*s*. 6*d*. per bushel, and 60 lbs. Comice Pears at 1*s*. 1*d*. per lb.

„ 7. M. Philimore paid the amount due from him, less 15*s*. 2*d*. allowed as discount.

„ 9. Bought, for cash, six 10-bushel cases of Encore Apples at 6*s*. per bushel

„ 10. Cash Sales to date, £26 8*s*. 10*d*. Paid this amount into the Bank.

1930.

Jan. 12. Paid, in cash, Wages £5 2*s.* 7*d.*, and Railway Carriage 12*s.* 6*d.*

„ 14. Crown Hotel Co., Ltd., complained of the condition of some of the Pears sold them on the 6th instant. Sent them Credit Note for 5*s.*

„ 17. Bought, on credit, from Sussex Basket Co., 2 dozen bushel baskets at 2*s.* 6*d.* each, less 5 per cent. trade discount.

„ 20. Received cheque, £10, on account from Crown Hotel Co., Ltd. Paid same into Bank.

„ 22. Sold, on credit, to B. Brownlees, 6 dozen Hyacinth bulbs at 2*d.* each, and 12 dozen Tulip bulbs at 1*s.* 6*d.* per dozen.

„ 25. Paid, by cheque, the amount due to S. Pippin, less 5 per cent. cash discount, and purchased, by cheque, Showcase for £5 5*s.*

Rule off the Ledger Accounts, bring down the balances as on January 25, 1930, and extract a Trial Balance as on that date.

N.B.—No Profit and Loss Account or Balance Sheet is to be prepared.

Exercise II.

The following Trial Balance was extracted from the books of H. Bowles.

You are required to prepare Trading and Profit and Loss Accounts for the year ended December 31, 1929, and a Balance Sheet as on that date. The Stock, as on December 31, 1929, was valued at £1,200.

Trial Balance, *December* 31, 1929.

	Dr. £	*Cr.* £
Warehouse Fixtures and Fittings	5,637	
Motor Lorries	1,250	
Office Furniture	642	
Capital Account		5,000
Bad Debts	124	
Sundry Debtors and Creditors	3,872	2,221
Purchases and Sales	2,478	12,772
Office Expenses and Salaries	1,888	
Bank Overdraft		2,850
Stock (January 1, 1929)	1,482	
Sales and Purchases Returns	94	127
Warehouse Wages	2,864	
Bills Receivable	200	
Warehouse Expenses	1,298	
Advertising	859	
Interest Account	56	
Cash in hand	226	
	£22,970	£22,970

ROYAL SOCIETY OF ARTS EXAMINATIONS, APRIL 1930.

STAGE II.—INTERMEDIATE.

[3 hours allowed.]

(*Only one question to be answered, but both exercises to be worked.*)

1. What is a " Negotiable Instrument " ?

Are the following Negotiable Instruments?—(*a*) Cheque, (*b*) Bill of Exchange, (*c*) Promissory Note.

2. Correct the undermentioned errors by means of Journal entries : (*a*) Cash Sales, £10 16*s*. 4*d*., posted from the Cash Book to the credit of C. Shea's Personal Account; (*b*) Damaged Goods, £14 12*s*. 6*d*., received from J. Brown, were returned to him and posted to the debit of Allowances Account; (*c*) A Bill Payable for £100, accepted in favour of R. Robinson, was entered in the Bills Receivable Book and posted to the credit of R. Robinson.

EXERCISE I.

G. Salmon owned a Wholesale and Retail Jeweller's Business. On January 1, 1930, his position was as follows: Stock, £379 18*s*. 7*d*.; Showcases and Fittings, £240; Cash at Bank, £421 19*s*. 5*d*.; Cash in hand, £42 7*s*. 4*d*.; Loan (at 5 per cent.) from R. Shaw, £400. Trade Creditors: G. Emblem, £147 8*s*. 9*d*., D. Lamb, £71 4*s*. 8*d*. Trade Debtor: H. Dickson, £295 8*s*. 1*d*.

Open the accounts necessary to record the above position and post to the Ledger, through the proper subsidiary books, the following transactions :—

January 3, 1930.

Paid, by cheque, R. Shaw half-year's interest at 5 per cent. on his loan; drew and cashed cheque, £100, for Office purposes; paid, in cash, Wages, £8 9*s*. 6*d*.; Boxes, Paper and String for packing purposes, £3 12*s*. 7*d*.; Showcase, £5 5*s*. Sold, on credit, to H. Hadley, Silver Toilet Set, £8 15*s*.; Sapphire and Diamond Brooch, £47 15*s*.; Emerald Ring, £110—the whole invoice subject to 10 per cent. trade discount. H. Dickson paid his account, less 5 per cent. cash discount—paid cheque into Bank.

January 10, 1930.

Purchased, for cash, job lot of 10 Rings at £5 8*s*. 6*d*. each, and 6 Wristlet Watches at £5 5*s*. each; paid, in cash, Wages, £9 10*s*. 6*d*., and Repairs to Fittings and Blinds, £3 17*s*. 4*d*.; purchased, on credit, from D. Lamb, 2 eight-day Clocks at £4 15*s*. each, 12 Tortoiseshell and Silver Powder Bowls at £1 7*s*. 6*d*. each, and 6 sets Gold Sleeve Links at £4 per pair—the whole invoice subject to 15 per cent. trade discount. Cash Sales to date, £108 10*s*. 6*d*. (paid this amount into Bank). H. Hadley returned Toilet Set purchased on the 3rd instant. Sent him Credit Note. Paid G. Emblem, by cheque, the amount of his account, less 5 per cent. cash discount.

Rule off and balance the Ledger Accounts and extract a Trial Balance as on January 10, 1930.

N.B.—**No Profit and Loss Account or Balance Sheet is to be prepared.**

EXERCISE II.

Avoca Limited was registered with a Nominal Capital of £25,000, divided into 10,000 7 per cent. Preference Shares of £1 each and 15,000 Ordinary Shares of £1 each. Of the above Nominal Capital, the following shares had been issued as on December 31, 1929: Preference Shares, 8,000 shares, all fully paid up; Ordinary Shares, 10,000 shares, all fully paid up, except that £100 remained unpaid on Final Call Account.

The following Trial Balance was extracted from the Company's books as on December 31, 1929:—

TRIAL BALANCE.

	Dr. £	s.	d.	Cr. £	s.	d.
Preference Share Capital Account				8,000	0	0
Ordinary Share Capital Account				10,000	0	0
Do. Unpaid Calls	100	0	0			
Machinery and Plant	2,840	0	0			
Manufacturing Wages	9,857	0	0			
Stock (31/12/1928)	6,852	0	0			
Purchases (Net)	21,749	0	0			
Carriage and Freight (Factory)	592	0	0			
Machinery Repairs	244	0	0			
Rent and Rates (Factory £1,248, Office £340)	1,588	0	0			
General Expenses (Factory 3/4ths, Office 1/4th)	988	0	0			
Advertising Account	1,287	0	0			
Patents Account	9,857	0	0			
Bad Debts Reserve (31/12/1928)				200	0	0
Sundry Debtors	7,840	0	0			
Sundry Creditors				4,874	0	0
Office Salaries and Expenses	4,872	0	0			
Sales				45,300	0	0
Sales—Returns	481	0	0			
Directors' and Auditors' Fees	1,525	0	0			
Bank Loan				3,000	0	0
Cash in hand	195	0	0			
Transfer Fees				8	0	0
Office Furniture	750	0	0			
Motor Lorries	1,862	0	0			
Interim Dividend paid on Preference Shares	280	0	0			
Profit and Loss Account (31/12/1928)				690	0	0
Insurance (Factory £562, Office £50)	612	0	0			
Bills Payable				2,299	0	0
	£74,371	0	0	£74,371	0	0

You are required to prepare Manufacturing and Profit and Loss Accounts for the year ended December 31, 1929, and a Balance Sheet as on that date.

When preparing these accounts, the following matters must **be taken into consideration :—**

(*a*) Depreciation is to be provided as follows :—Machinery and Plant 10 per cent., Office Furniture 8 per cent.
(*b*) The following valuations were made as on December 31, 1929 :—Stock £8,753, Motor Lorries £1,500.
(*c*) The Reserve for Bad Debts is to be further increased by an amount equal to 1 per cent. on the Gross Sales.
(*d*) One-third of the Advertising Account is to be carried forward to next year as representing the value of the metal signs.
(*e*) Provide for 3 months' interest at 6 per cent. on the Bank Loan.
(*f*) £200 has been debited in error to Machinery and Plant Account instead of to Furniture Account.
(*g*) A claim against the Inland Revenue for an Income Tax over-payment of £15 in 1928 had been admitted but not yet paid.

ROYAL SOCIETY OF ARTS EXAMINATIONS, APRIL 1930.

Stage III.—Advanced.

[3 hours allowed.]

1. State three different methods of paying Wages employed by manufacturers. Select a business and state which of the methods you describe is most suitable to it, giving reasons for your preference.

2. Describe the steps which must be taken by the Directors of a Limited Company when forfeiting shares. Submit the entries necessary to record the forfeiture of 200 £1 Ordinary Shares, held by B. Blank, on the ground that the final call of 2*s*. 6*d*. per share remained unpaid.

3. Under what Statute are Partnerships governed? Briefly discuss three matters concerning the financial affairs of a partnership which, in your opinion, should be dealt with in a Partnership Deed.

4. In the case of Limited Companies, is it *intra vires* to pay dividends " free of tax " on—(*a*) Ordinary and (*b*) Preference Shares? What is the effect of paying a dividend " free of tax " as regards the Shareholder and the Inland Revenue?

5. Leo Gervaise, Ltd., was registered to purchase the old-established business of L. Gervaise & Sons. The Nominal Capital of the Company consisted of £400,000, as follows :—150,000 7 per cent. Cumulative Preference Shares of £1 each; 200,000 Ordinary Shares of £1 each; and 500,000 Deferred Shares of 2*s*. each. The whole of the Deferred Shares were issued as fully paid to the Vendors as part-purchase price of the business. The following shares had been issued to the public as on December 31, 1927 :—120,000 Preference Shares and 130,000 Ordinary Shares all of which were fully paid except the final call of 2*s*. 6*d*. per share on 2,000 Preference Shares.

Adverse trade conditions were experienced during 1927, in consequence of which a Reconstruction Scheme was agreed to

by the Shareholders and sanctioned by the Court. The terms of the Reconstruction Scheme were as follows :—

(*a*) The Vendors agreed to surrender 250,000 of the Deferred Shares held by them.

(*b*) The Ordinary Shares of £1 each were reduced to a like number of shares of 10*s*. each.

(*c*) Each of the unissued Ordinary Shares of £1 each was divided into two shares of 10*s*. each.

(*d*) The amount rendered available by the reduction and surrender of Capital was to be utilized as follows :— (1) to write off the Debit Balance of the Profit and Loss Account. (2) To reduce Patents Account to £15,000, and Goodwill Account to £25,000.

The Reconstruction Expenses amounted to £3,450.

On January 1, 1928, in order to provide further Working Capital, the Vendors and other large shareholders consented to take allotment of 60,000 of the unissued Ordinary Shares at a premium of 2*s*. per share.

In addition to the balances necessary to record the above particulars, the following stood in the books of the Company as on December 31, 1928 :—

	£
Machinery and Plant (31/12/1927)	70,800
Do. Additions during the year	12,504
Purchases (Net)	42,860
Sales	109,460
Sales—Returns	724
Factory Wages	10,842
Preliminary Expenses	2,220
Directors' Fees (half-year to 30/6/1928)	1,500
Freehold Factory and Offices	71,222
Loose Tools (30/12/1927)	1,420
Cash at Bank	12,874
Cash in hand	724
Office Expenses	776
Insurance (Factory £1,065; Office £39)	1,104
Travellers' Salaries and Commission	4,524
Transfer Fees	39
Apprentices' Premiums (Factory)	300
Factory Power	3,740
Heating and Lighting (Factory £1,476; Office £52)	1,528
Cash received on account of work in progress	1,550
Stock (31/12/1927)	26,421
Work in progress (31/12/1927)	5,742
Salaries (Factory £6,764; Office £3,221)	9,985
General Expenses (Factory 4/5ths; Office 1/5th)	1,460
Bad Debts	321
Office Furniture	700
Motor Lorries	3,964
Sundry Creditors	2,441
Sundry Debtors	23,640
Laboratory Expenses	2,214
Rates and Taxes (Factory £2,689; Office £92)	2,781
Reserve for Bad Debts (31/12/1927)	500

You are required to prepare Manufacturing and Profit and Loss Accounts for the year ended December 31, 1928, and a Balance Sheet as on that date.

When preparing these accounts the following particulars must be taken into consideration :—

(*a*) Depreciation is to be provided as follows :—Machinery and Plant : Old Balance 15 per cent.; additions 10 per cent. Office Furniture 8 per cent.

(*b*) The following valuations were made as on December 31, 1928 : Stock £25,840; Work in Progress £8,775; Motor Lorries £3,000; Loose Tools £1,100.

(*c*) 50 per cent. of the Reconstruction Expenses and one-third of the Preliminary Expenses are to be written off.

(*d*) £500 of the Laboratory Expenses are to be carried forward as representing the value of Research Work.

(*e*) The provision for Bad Debts is to equal 5 per cent. on the Sundry Debtors, and the outstanding Directors' Fees, and £200 for Audit Fee, are to be provided for.

(*f*) Factory Wages (£526) were paid to the Company's workmen for erecting the new plant.

ROYAL SOCIETY OF ARTS EXAMINATIONS, MAY 1930.

Stage I.—Elementary.

[2½ hours allowed.]

(*Only one question to be answered, but both exercises to be worked.*)

1. What is "Trade Discount"? How is it dealt with in the books of a trader?

2. Explain the difference (if any) between a Trading Account and a Profit and Loss Account. Prepare an imaginary Trading Account relating to the business of a Cycle Dealer.

Exercise I.

L. Frame is a Wholesale and Retail Draper. On April 1, 1930, his books disclosed the following position : Stock, £1,339 10*s.* 6*d.*; Shop Fittings and Fixtures, £428; Bill Receivable (D. Johnstone), £100; Cash at Bank, £1,294; Cash in hand, £36 4*s.* 2*d.*; Bill Payable (G. Noble), £120; Debtors : G. Salmon, £48; R. Holland, £96. Creditor : S. Bramley, £221 14*s.* 8*d.*

You are required to open the accounts necessary to record Frame's position, as set out above, in the Ledger, and to post thereto, through the proper subsidiary books, the following transactions :—

1930.

April 2. Sold, on credit, to G. Salmon, 150 pairs Blankets at 20*s.* 6*d.* per pair, and 10 gross Dusters at 5*s.* 4*d.* per dozen. The invoice subject to 10 per cent. trade discount.

„ 4. Drew and cashed cheque, £100, for Office purposes. Paid, in cash, Wages, £15 8*s.* 6*d.*; Packing Materials, £3 2*s.* 4*d.*

1930.

April 8. Cash Sales to date (£56 4*s.* 11*d.*) paid into the Bank.

„ 10. Bill Payable, due this day, was met by the Bank.

„ 12. Purchased, on credit, from G. Gibson, 6 Fur Coats at £9 17*s.* 6*d.* each, and 20 Fur Necklets (various) at £80 15*s.* the lot. The whole invoice subject to 12 per cent. trade discount.

„ 16. G. Salmon returned, as damaged, 2 pairs blankets sold to him on the 2nd instant. Sent him Credit Note.

„ 17. Paid, in cash, Wages, £16 12*s.*; Postages and Stationery, £1 12*s.* 6*d.*

„ 20. Bill Receivable due this day was duly met at the Bank.

„ 22. Paid S. Bramley the amount due to him, less 5 per cent. cash discount.

„ 24. Bought, for cash, job lot of tweeds for £68 15*s.* 6*d.*

„ 29. L. Frame drew cheque £30 for private purposes.

Balance and rule off the Ledger, bring down the balances and extract a Trial Balance as on April 29, 1930.

N.B.—No Profit and Loss Account or Balance Sheet is to be prepared.

EXERCISE II.

On December 31, 1929, the following balances were extracted from the books of Charles Kilham :—

TRIAL BALANCE, *December* 31, 1929.

	£	*s.*	*d.*	£	*s.*	*d.*
Cash Purchases	98	4	0			
Credit Purchases	484	8	0			
Stock January 1, 1929	378	10	0			
Sales				1,841	16	0
Sales Returns	36	0	0			
R. Jones, Debtor	98	6	0			
W. Robinson, Debtor	41	14	0			
F. White, Creditor				271	0	0
G. Garraway, Creditor				103	10	0
Cash at Lloyds Bank	364	10	0			
Discount and Allowances				21	4	0
Wages, Salaries and General Expenses	681	0	0			
Travellers' Salaries and Commission	562	8	0			
Fire, Burglary and National Health Insurance	74	10	0			
Furniture and Fittings	878	0	0			
Capital Account				1,460	0	0
	£3,697	10	0	£3,697	10	0

The Stock on Hand was valued on December 31, 1929, at £294. One-third of the " Wages, Salaries and General Expenses " is to be charged to Profit and Loss Account and the balance to Trading Account.

You are required to prepare from the above particulars Trading

and Profit and Loss Accounts for the year ended December 31, 1929, and a Balance Sheet as on that date.

ROYAL SOCIETY OF ARTS EXAMINATIONS, JULY 1930.

Stage III.—Advanced.

[3 hours allowed.]

1. G. Speedy is a dealer in Motor Cars. Most of his cars are sold on the hire-purchase system—the monthly instalments being spread over three years. How should these sales be treated in Speedy's books?

2. McGredy and Chatenay were in partnership, sharing profits as to 4/5ths and 1/5th respectively. They agreed to dissolve partnership as on March 31, 1930.

A Balance Sheet was prepared as on this date, in which the assets stood at £39,750. The liabilities on the same date were as follows: Loan from Bankers and Interest, £5,400. Sundry Trade Creditors, £12,100. Reserve Account, £250. Capital Accounts: McGredy, £10,000; Chatenay, £1,000. Loan Accounts: McGredy, £9,000; Chatenay, £2,000.

The assets realized £36,450, the costs of realization being £754. Discounts amounting to £378 were allowed by Sundry Creditors on the sums due to them.

Prepare the accounts necessary to show the results of the dissolution.

3. In a General Store where Departmental Profit and Loss Accounts are prepared, how would you allocate the following expenses as between the several departments?—(*a*) Rent and Rates; (*b*) Lighting; (*c*) Advertising; (*d*) Depreciation.

4. Submit *pro forma* entries illustrating—

(*a*) The issue of 50,000 Ordinary Shares of £1 each at a premium.

(*b*) The issue of £25,000 Debenture Stock at a discount.

5. R. Roberts and S. Salmon were in business as equal partners, and as on December 31, 1928, the credit balances of their Capital Accounts were as follows: Roberts, £15,000; Salmon, £12,000.

On January 1, 1929, they agreed to take over the assets (with the exception of Cash) and liabilities of G. McArthur, who carried on a similar business. McArthur was to be admitted as a partner, and was to manage his business as a separate branch of the firm. As on January 1, 1929, McArthur's liabilities and assets were as follows: Loan (G. Smith), £2,330; Furniture and Fittings, £320; Sundry Debtors, £2,140; Stock, £4,870; Cash at Bank, £1,000.

Under the new Partnership Deed the following matters were agreed:—

(*a*) Profits were to be shared as follows:—Roberts, 2/5ths; Salmon, 2/5ths; McArthur, 1/5th.

(*b*) Interest was to be allowed at 5 per cent. on Capital and charged on Drawings.

(*c*) A Goodwill Account amounting to £4,000 was to be created and credited in equal shares to the Capital Accounts of Roberts and Salmon.

(*d*) McArthur was to be credited with a partnership salary of £300 per annum.
(*e*) In the books of the firm the old business was to be called Branch " X " and the new business Branch " Y."
(*f*) Interest on Drawings is to be charged as follows: Roberts, £28; Salmon, £17; McArthur, £10.

In addition to the balances necessary to record the above particulars, the following were extracted from the books of the Firm as on December 31, 1929 :—

	£	s.	d.
Sundry Creditors	876	0	0
Purchases Net (Branch " X " £51,872, Branch " Y " £9,741)	61,613	0	0
Sales Net (Branch " X " £68,320, Branch " Y " £12,145)	80,465	0	0
Carriage Inwards (" X " £874, " Y " £198)	1,072	0	0
Cash at Bank	4,684	0	0
Cash in hand	874	0	0
Insurance	516	0	0
Shop Rent and Rates (" X " £975, " Y " £150)	1,125	0	0
Office Salaries and Expenses	1,585	0	0
Bills Payable	1,180	0	0
Travellers' Salaries and Expenses	981	0	0
Discount (" X " debit balance £72 credit balance £21)	51	0	0
Shop Salaries and Expenses (" X " £1,582, " Y " £541)	2,123	0	0
Partners' Drawings: (Roberts £1,050, Salmon £900, McArthur £500)	2,450	0	0
Stock (" X " Branch) 31/12/1928	12,872	0	0
Advertising	333	0	0
Alterations at Branch " X "	1,281	0	0
Interest on Loan and Bank Charges	129	0	0
Office Rent	102	0	0
Motor Vans	1,583	0	0
Sundry Debtors (" X " and " Y " branches)	14,016	0	0
Furniture and Fittings (" X " Branch) 31/12/1928	4,271	0	0

You are required to prepare Trading and Profit and Loss Accounts, showing the results of each Branch, for the year ended December 31, 1929, and a Balance Sheet as on that date.

When preparing these accounts the following matters must be taken into consideration :—

(*a*) The following valuations were made as on December 31, 1929: Stock: " X " Branch £11,741; " Y " Branch £5,484; Motor Vans £1,100.
(*b*) The following were outstanding as on December 31, 1929: Shop Salaries: " X " Branch £28, " Y " Branch £10; Office Salaries £23.
(*c*) The alterations at " X " Branch are to be spread over three years.
(*d*) The unappropriated expenditure is to be allocated as to 2/3rds to " X " Branch and 1/3rd to " Y " Branch.
(*e*) Interest on Capital and drawings is to be apportioned as follows: " X " Branch 4/5ths, " Y " Branch 1/5th.

ROYAL SOCIETY OF ARTS EXAMINATIONS, MAY 1930.

Stage III.—Advanced.

[3 hours allowed.]

1. X, Y and Z are equal partners. In the event of the death of a partner, the partnership deed provides that an annuity of £400 per annum is to be paid to the widow of the deceased partner. Y died on March 1, 1930. How would you deal with the annuity in the books and annual accounts of the firm? Give reasons for the method you recommend.

2. Blanks, Limited, made the following issues which were fully subscribed and paid up:—1,000 5 per cent. Debentures of £100 each at 101, and 50,000 Ordinary Shares of £1 each at 17*s*. 6*d*.

The Expenses incurred were: *Debentures:* Underwriting 2½ per cent.; Sundry Expenses, £346; *Shares:* Underwriting 3 per cent.; Sub-underwriting 1½ per cent.

Submit any comments you have to make on the above issues and give the ledger accounts affected and the Balance Sheet entries.

3. It has been stated that provision for depreciation is not made under the double-account system. If you do not agree with this statement, give reasons for your disapproval.

4. Describe the records which a Company Accountant should keep of Share Transfers. Can transfers of shares be registered by a Limited Company in the absence of an instrument of transfer?

5. G. Salmon and S. Silk are equal partners. They agree to admit Salmon's son, Robert, into partnership as on January 1, 1929. Robert Salmon is to be credited at the close of the year with a partnership salary of £300 per annum, and is to be entitled to 1/10th share of the profits, such share to be borne by his father.

Under the partnership deed: (1) A Goodwill Account of £6,000 was to be created and credited in equal shares to the Capital Accounts of G. Salmon and S. Silk; (2) 5 per cent. p.a. Interest is to be allowed on Capital and Current and Loan Accounts, and is to be charged on drawings in Cash; (3) S. Silk is to be credited at the close of the year with a partnership salary of £600 per annum.

On December 31, 1928, the accounts of the partners stood in the books of the firm as follows:—

	Capital Accounts (Credit Balances).			*Current Accounts (Credit Balances).*			*Loan Account (Credit balance).*		
	£	*s.*	*d.*	£	*s.*	*d.*	£	*s.*	*d.*
G. Salmon	25,000	0	0	1,040	0	0	6,000	0	0
S. Silk .	10,500	0	0	420	0	0	—		

On January 1, 1929, Silk assigned to the firm a patent process he had invented, and it was agreed that his Capital Account was to be credited with £2,500 as purchase price of the patent. On July 1 G. Salmon paid £5,000 into the business as further Capital. During the year drawings in cash were made by the partners as follows:—April 1: G. Salmon £800; S. Silk £300,

July 1: G. Salmon £700; S. Silk £500. October 1: G. Salmon £800; S. Silk £600.

In addition to the accounts necessary to record the above particulars, the following Balances were extracted from the firm's books as on December 31, 1929:—

	£
Freehold Factory	35,415
Manufacturing Wages	23,684
Plant and Machinery (31/12/1928)	10,820
Do. Additions during the year	650
Office Furniture (31/12/1928)	840
Loose Tools	1,527
Sundry Debtors	7,840
Sundry Creditors	12,895
Cash at Bank	1,286
Cash in hand	36
Stock (31/12/1928)	7,561
Work in Progress (31/12/1928)	948
Research Expenses (Factory)	843
Purchases (Net)	31,462
Sales	82,435
Sales—Returns	349
Carriage Inwards	498
Carriage Outwards	621
Travellers' Expenses and Salaries	4,327
Office Salaries	3,240
Lighting and Heating (Factory 7/8ths; Office 1/8th)	1,248
Rates and General Expenses (Factory 7/8ths; Office 1/8th)	2,640
Insurance (Factory £232; Office £48)	280
Factory Power	1,962
Packing Materials and Expenses	1,106
Reserve for Bad Debts (31/12/1928)	300
Machinery Repairs	347
Audit Fee	210
Interest on Loan to June 30, 1929	150

You are required to prepare Manufacturing and Profit and Loss Accounts for the year ended December 31, 1929, and a Balance Sheet as on that date.

When preparing the above accounts the following matters must be taken into consideration:—

(*a*) During the year goods were withdrawn from the firm as follows:—G. Salmon, £96 4*s.*; S. Silk, £52 16*s.* No entries had been made recording these withdrawals.

(*b*) Depreciation must be provided at the following rates p.a.: Old Plant, 15 per cent.; Additions (average date July 1), 8 per cent.; Office Furniture, 10 per cent.

(*c*) The following valuations were made as on December 31, 1929: Stock, £8,786; Work in Progress, £1,121; Loose Tools, £1,110.

(*d*) The following expenses were owing and unprovided for as on December 31, 1929: Wages, £146; Office Salaries, £130; Machinery Repairs, £246.

(*e*) Provision must be made for the outstanding interest on the loan from G. Salmon (ignore Income Tax).

(*f*) Expenditure to be carried forward: Research Expenses 1/3rd, Factory Insurance £48.

(*g*) The reserve for Bad Debts is to be equal to 5 per cent. on the Sundry Debtors.

(*h*) Before the profits are divided, £500 is to be reserved as a bonus for distribution to the staff.

ROYAL SOCIETY OF ARTS EXAMINATIONS, JUNE 1930.

STAGE II.—INTERMEDIATE.

[3 hours allowed.]

(*Only one question to be answered, but both exercises to be worked.*)

1. Give an example of one of each of the following: (*a*) Fixed Asset; (*b*) Floating Asset. Explain the difference (if any) in the purposes for which such assets are held by a Trader or Manufacturer.

2. During the year ended December 31, 1929, C. P. Kilham made the following bad debts: A. B., £13 2*s*. 6*d*.; X. Y., £5 9*s*. 10*d*.; and R. Z., £12 18*s*. 4*d*. Submit the entries Kilham should make when closing his books as on December 31, 1929.

EXERCISE I.

C. Testout was in business on January 1, 1930. His financial position on that date was as follows: Cash at Bank, £526 19*s*. 2*d*.; Cash in hand, £42 17*s*. 6*d*. Book Debts: R. Rugosa, £76 18*s*.; Western Cinema Limited, £102 19*s*. 4*d*. Creditor: R. Abrahams, £84 16*s*. 10*d*. Stock, £446 10*s*. 10*d*. Fixtures and Fittings. £208 12*s*. Bill Payable (due January 3, 1930), £200.

You are required to open the accounts necessary to record the above particulars, and to post, through the proper subsidiary books, the following transactions:—

January 3, 1930.

Bill Payable, due this day, was duly paid by the Bank. Purchased, on credit, from the Oriental Carpet Co., 5 Turkey Rugs at £4 9*s*. 6*d*. each, less 10 per cent. trade discount: 7 Persian Rugs, at £10 9*s*. 4*d*. each, less 15 per cent. trade discount. Drew and cashed cheque £100 for Office purposes, and paid, in cash, Salaries and Wages, £14 17*s*.; Railway Charges, £3 4*s*. 1*d*.; and Packing Materials, £24 8*s*. 7*d*. Obtained new Cheque Book from the Bank, who charged the account with 16*s*. 8*d*. for same. Paid R. Abrahams, by cheque, the amount due to him, less £2 14*s*. 2*d*. allowed by him as discount.

January 9, 1930.

Sold, on credit, to Western Cinema Limited, 85 yards Axminster Stair Carpet at 9*s*. 4*d*. per yard, and 25 square yards of Felting at 1*s*. 9*d*. per square yard. The above goods were subject to 10 per cent. trade discount. Packing Charges (net), 18*s*. 6*d*. Sold, for cash, and paid into Office Cash, 4 Brussels Squares at £4 6*s*. 6*d*. each, and paid, in cash, Salaries and Wages, £15 12*s*.; Insurance (Burglary and Plate-glass), £14 10*s*. Bought, by cheque, Office Safe, £40; and 2 Mahogany Show Cases, at £15 15*s*. each. Drew Cheque, £50, for private purposes. Returned to Oriental Carpet Co., 1 Turkey Rug purchased on the

3rd instant, as damaged, and received Credit Note for same. R. Rugosa paid his account, by cheque, less 5 per cent. cash discount. Paid cheque into Bank.

Rule off and balance the Ledger Accounts and extract a Trial Balance as on January 9, 1930.

N.B.—No Profit and Loss Account or Balance Sheet is to be prepared.

EXERCISE II.

H. Dickson and L. France entered into a partnership agreement and commenced business on January 1, 1929. Profits were to be divided as follows: H. Dickson, 2/3rds; L. France, 1/3rd.

The partners brought the following cash into the business: H. Dickson, £8,000; L. France, £4,000. Dickson owned a patent which he conveyed to the new firm; this was valued at £2,000, and it was agreed that this sum should be credited to Dickson's Capital Account.

The following balances were extracted from the books of the firm as on December 31, 1929:—

	Dr.	*Cr.*
	£	£
H. Dickson Capital Account		10,000
L. France		4,000
Patents Account	2,000	
Rent (to September 29, 1929) (Warehouse 3/4ths; Office 1/4th)	300	
Warehouse Fittings	8,740	
Purchases	18,786	
„ Returns		328
Sales		39,673
„ Returns	146	
Sundry Debtors	5,770	
Sundry Creditors		1,286
Warehouse Wages and Expenses	4,796	
Heating and Lighting (Warehouse £342, Office £28)	370	
General Expenses (Warehouse 5/6ths, Office 1/6th)	1,482	
Office Salaries	1,928	
Office Expenses	179	
H. Dickson, Drawings Account	950	
L. France	520	
Cash at Bank	3,994	
Cash in hand	242	
Discount Account		37
Office Furniture	840	
Carriage Inwards	341	
Carriage Outwards	264	
Travellers' Salaries and Expenses	2,788	
National Health, etc., Insurance (Warehouse £58, Office £6)	64	
Bad Debts	324	
Motor Lorry	500	
	£55,324	**£55,324**

You are required to prepare Trading and Profit and Loss Accounts for the year ended December 31, 1929, and a Balance Sheet as on that date.

When preparing these accounts, the following instructions must be taken into consideration :—

(*a*) Depreciation is to be provided as follows :—Office Furniture, 5 per cent.; Warehouse Fittings, 10 per cent.

(*b*) The final stock was valued at £2,176, and Motor Lorry at £400.

(*c*) Interest at 5 per cent. per annum is to be allowed on Capital, and 5 per cent. per annum interest is to be charged on partners' drawings.

(*d*) The partners' drawings were made as follows :—H. Dickson, July 1, £500; October 1, £450. L. France, April 1, £300; December 1, £220.

(*e*) The Quarter's Rent due on December 31, 1929, is outstanding and must be provided for.

(*f*) The Employers' Assurance Corporation had admitted, but had not paid, a claim of £36 paid to an injured traveller and charged in Travellers' Expenses.

(*g*) A Reserve equal to 2½ per cent. on the Sundry Debtors is to be created for Bad and Doubtful Debts.

ROYAL SOCIETY OF ARTS EXAMINATIONS, JULY 1930.

Stage I.—Elementary.

[2½ hours allowed.]

(Only one question to be answered, but both exercises to be worked.)

1. What is the principal book of account employed by a Trader? What are the functions of this book, and how many different classes of account would you expect to find in it?

2. X. Y. informs you that the Capital he employs in his business amounts to £1,500. What does X. Y. mean by this statement?

Exercise I.

On July 1, 1930, the books of William Bowyer, a Tea and Coffee Merchant, showed the following financial position :— Creditors : Q. Alexander, £441 13*s.* 4*d.*; R. Rose, £219 10*s.* 6*d.*; Debtors : M. Morse, £171 4*s.* 2*d.*; F. Izzard, £327 8*s.* 6*d.* Cash at Bank, £2,296 10*s.*; Cash in hand, £14 2*s.* 6*d.* Landlord for rent owing to June 25, £150. Interest Account, debit balance. £10 10*s.* Stock, £1,693 18*s.* 8*d.* Loan from R. Jones, £250. Interest owing on ditto to June 25, £7 10*s.* Furniture and Fixtures, £555.

Open the accounts necessary to record the financial position set out above, and post to the Ledger, through the proper subsidiary books, the following transactions :—

1930.

July 2. Drew and cashed cheque £150, for Office purposes. Paid. in cash, Wages and Expenses, £19 8*s.* 7*d.* and bought, for cash, office safe, £40.

1930.

July 3. M. Morse sent cheque for £100 on account. Paid same into Bank. Purchased, on credit, from R. Rose, 50 chests China Tea at £6 10*s.* per chest, and 1,000 lbs. of Coffee at 2*s.* 2*d.* per lb., the whole invoice subject to 10 per cent. trade discount.

,, 4. Paid, by cheque, the amount due to Q. Alexander, less 5 per cent. cash discount.

,, 5. Cash Sales to date, £36 4*s.* 6*d.*, paid into Office cash. Paid, by cheque, the amount due to R. Jones for interest.

,, 6. Sold, on credit, to F. Izzard, 36 chests Indian Tea at £7 2*s.* per chest and 1,200 lbs. of Coffee at 2*s.* 6*d.* per lb. Packing and Carriage, £2 8*s.*, the whole invoice subject to 15 per cent. trade discount.

,, 7. Paid, in cash, Wages and Expenses, £21 3*s.* 7*d.*, and purchased, for cash, 10 chests choice Tea at £8 8*s.* per chest.

,, 8. Paid, by cheque, rent due to Landlord.

,, 9. F. Izzard returned, as damp, 2 chests Tea sold to him on the 6th instant. Sent him Credit Note.

,, 10. Accepted a Bill at three months dated this day in favour of R. Rose for amount due to him.

Rule off the Ledger Accounts, bring down the balances and extract a Trial Balance as on July 10, 1930.

N.B.—No Profit and Loss Account or Balance Sheet is to be prepared.

Exercise II.

On June 30, 1930, the following Trial Balance was extracted from the books of H. Vincent. You are required to prepare Trading and Profit and Loss Accounts for the year ended June 30, 1930, and a Balance Sheet as on that date. The Stock as on June 30, 1930, was valued at £3,742.

Trial Balance, *June* 30, 1930.

	Dr. £	*Cr.* £
Sundry Debtors	3,241	
Sundry Creditors		5,431
Sales (Net)		20,319
Purchases	6,848	
Do. Returns		321
Freehold Warehouse	10,850	
Warehouse Wages	3,986	
Warehouse Expenses	1,248	
Insurance (Fire and Burglary)	221	
Capital Account		20,000
Stock (July 1, 1929)	3,241	
War Loan	1,500	
Interest Account		62
Cash at Bank	2,326	
Cash in hand	418	
Office Salaries and Expenses	2,882	
Travellers' Salaries and Expenses	3,448	
Warehouse Fixtures and Fittings	4,866	
Carried forward	**45,075**	**46,133**

	Dr. £	Cr. £
Brought forward	45,075	46,133
Discount Account		122
Carriage Inwards	327	
Carriage Outwards	481	
Heating and Lighting (Warehouse) . .	314	
Do. (Office) . . .	48	
Telephone Cash Deposit with G.P.O. . .	10	
	£46,255	£46,255

ROYAL SOCIETY OF ARTS EXAMINATIONS, JULY 1930.

STAGE II.—INTERMEDIATE.

[3 hours allowed.]

(Only one question to be answered, but both exercises to be worked.)

1. "The Goodwill of the business is worth £5,000." What is meant by this statement?

X. Y. agreed to take A. B. into partnership. A. B. was to pay £1,500 by way of premium for admission as a partner, and was to bring in £3,000 cash into the business as his Capital. Give the entries necessary to record the above particulars.

2. Name two books which Limited Companies are compelled to keep, but which are not obligatory in the case of a Private Firm. Give a ruling of *one* of the books you name.

EXERCISE I.

D. Dennison and L. Gay are partners in a Wholesale and Retail Drapery Business. The Capital of the business is held in equal shares by the partners. Gay's father, Robert Gay, had lent the firm £1,000 at 7 per cent. interest. In addition to the above, the following particulars relate to the financial position of the firm as on June 1, 1930:—Cash at Bank, £1,400 15*s*. 8*d*.; Cash in hand, £227 8*s*. 9*d*.; Stock, £3,957 10*s*.; Shop and office fixtures and furniture, £987 4*s*. 2*d*. Bill payable (J. Jones), due June 3, 1930, £200. Creditors: R. Rugosa, £321 4*s*. 6*d*.; B. Briar, £192 9*s*. 8*d*. Debtors: G. McArthur, £46 12*s*. 9*d*.; L. Pirrie, £94 2*s*. 10*d*.

You are required to open the accounts necessary to record the above position in the books of the firm and to post, through the proper subsidiary books, the following transactions:—

1930.

June 2. Sold, on credit, to G. McArthur, 5 dozen Men's Wool Cardigans at 10*s*. 6*d*. each, 36 Ladies' Quilted Satin Dressing-Gowns at 28*s*. 6*d*. each, the whole invoice subject to 10 per cent. trade discount.

" 3. The Bill payable, due this day, was duly met by the Bank.

" 6. Paid, in cash, Wages £42 9*s*. 8*d*.; Packing and Carriage, £6 4*s*. 9*d*., and purchased, for cash, job lot of 86 Woollen Shawls at 7*s*. 11*d*. each.

" 7. Paid, by cheque, six months' interest due this day on loan from Robert Gay. The partners drew £50 each from the Bank for private purposes.

1930.

June 10. G. McArthur accepted a Bill of Exchange at 3 months for £100, and paid the balance of his account, by cheque, less £1 3*s*. 2*d*. allowed him as discount.

,, 12. Purchased, on credit, from B. Briar, 10 dozen Men's Waterproof Coats at 27*s*. 8*d*. each, and 108 Ladies' Velour and Fur Winter Coats at 6 guineas each. Packing and Carriage, £1 9*s*. 8*d*. The goods subject to 10 per cent. trade discount. Packing and Carriage net.

,, 14. Cash sales to date, paid into Bank, £685 16*s*. 2*d*.

,, 15. Paid, by cheque, amount due to B. Briar, less 5 per cent. cash discount.

L. Pirrie returned, as damaged, goods valued at £3 10*s*. 6*d*. Sent him Credit Note for this amount.

Rule off the Ledger, bring down the balances and extract a Trial Balance as on June 15, 1930.

N.B.—No Profit and Loss Account or Balance Sheet is to be prepared.

EXERCISE II.

The Altwood Manufacturing Company, Ltd., was registered with a Nominal Capital of £100,000, divided into 40,000 7 per cent. Preference Shares of £1 each; 50,000 Ordinary Shares of £1 each, and £40,000 Deferred Shares of 5*s*. each.

From the Trial Balance set out below, you are required to prepare Manufacturing and Profit and Loss Accounts for the year ended June 30, 1930, and a Balance Sheet as on that date.

TRIAL BALANCE, *June* 30, 1930.

	Dr.	*Cr.*
		£
7 per cent. Preference Shares Account		30,000
Ordinary Shares Account		25,000
Deferred Shares Account		5,000
Unpaid Calls (Ordinary Shares)	500	
Freehold Buildings	36,920	
Unclaimed Dividends		786
Income Tax	2,800	
Machinery and Plant (June 30, 1929)	12,840	
,, ,, ,, Additions during the year	3,240	
Office Furniture	850	
Staff Pensions Fund		7,890
Loose Tools (June 30, 1929)	1,794	
Bad Debt Reserve (June 30, 1929)		300
Stock (June 30, 1929)	10,876	
Purchases (Net) and Sales	32,744	85,485
Sales Returns	324	
Machinery Repairs	641	
Office Salaries and Expenses	4,386	
Factory Wages	14,494	
General Expenses (Factory 9/10ths, Office 1/10th)	4,390	
Insurance (Factory £342; Office £36)	378	
Carriage (Factory)	431	
Directors' and Auditors' Fees	1,675	
Carried forward	**129,283**	**154,461**

	Dr. £	*Cr.* £
Brought forward	129,283	154,461
Sundry Debtors and Creditors . . .	12,640	3,641
Manufacturing Expenses	2,386	
Bank	13,034	
Cash in hand	872	
Travellers' Salaries and Expenses . .	6,894	
Discounts	276	321
Preference Dividend paid January 1, 1930 .	1,050	
Interim Ordinary Dividend paid January 1, 1930	750	
Transfer Fees		12
Reserve Account (June 30, 1929) . . .		8,750
	£167,185	£167,185

Before preparing the necessary accounts, the following matters must be considered :—

(*a*) Depreciation is to be charged as follows :—Machinery and Plant : Old Balance, 15 per cent., Additions, 6 months at 10 per cent. per annum ; Freehold Buildings, $2\frac{1}{2}$ per cent. ; Office Furniture, 8 per cent.
(*b*) Increase the Bad Debt Reserve by a further £300, and reserve $2\frac{1}{2}$ per cent. on the Sundry Debtors for discount.
(*c*) Valuations were made, as on June 30, 1930, as follows :— Stock, £12,484 ; Work in Progress, £3,685 ; Loose Tools, £1,500.
(*d*) The Directors decided to transfer £300 from the Reserve Account and £250 from Unclaimed Dividends Account to the Profit and Loss Account.
(*e*) Appropriate 5 per cent. of the credit balance of the Profit and Loss Account, as an addition to the Staff Pension Fund, after making all the above adjustments, but before charging the interim dividends.

ROYAL SOCIETY OF ARTS EXAMINATIONS, MARCH 1931.

Stage I.—Elementary.

[$2\frac{1}{2}$ hours allowed.]

Candidates may answer all three questions, and work both exercises.

Questions.

1. Explain what is meant by the entries in the account given below :—

Dr. *A. B. Scond.* *Cr.*

	£	s.	d.		£	s.	d.
To Goods . .	100	0	0	By Cash . . .	25	0	0
				" Bad Debts Account . .	75	0	0
	£100	0	0		£100	0	0

2. F. Smith's Cash Book showed a balance of cash at Bank of £327 19*s*. on December 31, 1930. His Pass Book showed an overdraft of £267 17*s*. 10*d*. on that date. The difference arose as follows: A cheque for £32 18*s*. 9*d*., drawn by F. Smith, had not been presented for payment; £616 9*s*., received on December 31, was not credited by the Bank until January 1, 1931; the Bank had charged him with £12 6*s*. 7*d*. Interest, which was not entered in the Cash Book. Prepare the Reconciliation Statement.

3. From the following particulars give the Telephone Account for 1930 as it would appear in the Nominal Ledger :—

1930.				£	s.	d.	£	s.	d.
Jan. 15.	Cash paid :		Rent to Mar. 31, 1930	3	7	8			
	,,	,,	Deposit . . .	2	0	0			
							5	7	8
April 16.	,,	,,	Rent to June 30, 1930	3	7	8			
	,,	,,	Calls to Mar. 31, 1930	6	7	10			
							9	15	6
July 12.	,,	,,	Rent to Sept. 30, 1930	3	7	8			
	,,	,,	Deposit . . .	3	0	0			
	,,	,,	Calls to June 30, 1930	5	3	0			
							11	10	8
Oct. 15.	,,	,,	Rent to Dec. 31, 1930	3	7	8			
	,,	,,	Calls to Sept. 30, 1930	4	16	0			
							8	3	8

The charge for calls to December 31 was £4 17*s*. 2*d*.; this was paid on January 17, 1931.

Exercise I.

N. Watson is a Coal Merchant. His Cash Book for December 1930 is shown on page 802.

On November 30, 1930, his ledger showed, in addition to his capital, the following balances: Horse and Cart, £50. Sundry Debtors: A. Morse, £28 10*s*.; R. Somerset, £183 11*s*. Bills Payable, £250. Creditor: J. Paston, £77 3*s*. 7*d*. Rent paid in advance, £25; Stock, £1,140 2*s*. 7*d*.

You are required to—

(1) Give the journal entry necessary to record N. Watson's financial position on November 30, 1930, and open the Ledger Accounts.

(2) Post the above Cash Book to the Ledger.

(3) Record, through the proper subsidiary books, the following items—

Dec. 1. J. Paston gave credit note for £25, for coal returned this day.

Dec. 15. Purchased, on credit, from H. Williams, 50 tons of Derby Nuts at 35*s*. per ton and 40 tons of Gas Coke at 25*s*. per ton.

(4) Balance and rule off the Ledger, bring down the balances, and extract a Trial Balance, as on December 31, 1930.

N.B.—No Trading Account, Profit and Loss Account, or Balance Sheet is to be prepared, and the Cash Book need not be reproduced.

Cash Book.

Receipts.

1930.		Cash £	s.	d.	Bank £	s.	d.
Nov. 30.	To Balance brought forward .	39	6	8	760	13	4
Dec. 7.	„ Cash Sales .	153	7	0			
„ 8.	„ Cash . .				100	0	0
„ 15.	„ Cash Sales .				307	10	0
„ 15.	„ N. Watson. Capital . .	50	0	0	50	0	0
„ 16.	„ Wages unclaimed				3	11	2
„ 22.	„ A. Morse . .				14	10	0
„ 22.	„ Cash Sales .	70	0	0			
„ 22.	„ Sale of Horse and Cart . .				54	0	0
		£312	13	8	£1,290	4	6

Payments.

1930.		Cash £	s.	d.	Bank £	s.	d.
Dec. 8.	By Wages . .	56	8	10			
„ 8.	„ Cash. 8 ton Kitchen Cobs .	12	0	0			
„ 8.	„ Purchase of Motor Lorry . .				250	0	0
„ 8.	„ Bank . .	100	0	0			
„ 15.	„ Wages . .	60	0	0			
„ 15.	„ Motor Running Expenses .	17	2	3			
„ 17.	„ Advertising .				42	0	0
„ 22.	„ Wages . .	56	8	10			
„ 31.	„ Balance carried down . .	10	13	9	998	4	6
		£312	13	8	£1,290	4	6

EXERCISE II.

On December 31, 1930, the following Trial Balance was extracted from the books of John and James Betts, who share profits and losses equally. You are required to prepare Trading and Profit and Loss Accounts for the year ended December 31, 1930, and a Balance Sheet as on that date. The stock as on December 31, 1930, was valued at £1,526.

TRIAL BALANCE, *December* 31, 1930.

	Dr. £	*Cr.* £
Capital Account, John Betts		8,000
Do. James Betts		8,000
Stock (January 1, 1930)	1,134	
Wages	2,466	
Debtors and Creditors	4,937	2,662
Bills Payable		350
Purchases and Sales	7,504	10,658
Drawings, John Betts	300	
Do. James Betts	300	
Returns Outwards		252
Rent Received		52
Cash	49	
Bank	1,500	
Office Expenses	188	
Salaries	938	
Bad Debts	362	
Advertising	296	
Discount	174	
Heating, Lighting and Insurance	173	
Carriage Outwards	203	
Motor Lorries	450	
Land and Buildings	9,000	
	£29,974	£29,974

ROYAL SOCIETY OF ARTS EXAMINATIONS, MARCH 1931.

STAGE II.—INTERMEDIATE.

[3 hours allowed.]

(All questions may be answered.)

1. (*a*) Define Single Entry and state briefly the disadvantages of this system.

   (*b*) A manufacturer, Philip Morgan, kept his books on what is known as the Single Entry system. The position of the business at December 31, 1930, revealed the following—

	£
Freehold Premises	1,000
Plant and Machinery	600
Stock in Trade	1,300
Sundry Debtors	1,750
Cash at Bank	300
Sundry Creditors	1,875

At January 1, 1930, his capital was £5,500. During the year (1930) his Drawings amounted to £500, and the sale of his private motor car realized £200, which he paid into the business Bank account. You are required to prepare the Statement of Affairs showing the financial position of Philip Morgan as at December 31, 1930, compile his Capital Account at that date and ascertain his Profit or Loss for the year.

2. Briefly explain the following: (*a*) Debenture, (*b*) Reserve Fund, (*c*) Collateral Security, (*d*) Preference Shares, (*e*) Fictitious Assets.

3. George Wright and Henry Dobson enter into partnership, upon equal terms, to acquire the business carried on by Amos Atkinson. The business was taken over as at January 1, 1931, on the basis of the last certified Balance Sheet, which was as follows:—

BALANCE SHEET OF AMOS ATKINSON AS AT DECEMBER 31, 1930.

Liabilities.	£	*Assets.*	£
Capital Account—		Freehold Premises .	14,200
Amos Atkinson .	26,000	Plant and Machinery .	8,100
Sundry Creditors .	3,400	Furniture and Fittings	600
Reserve for Bad Debts	300	Stock in Trade . .	4,100
		Sundry Debtors . .	2,700
	£29,700		£29,700

The purchase price was agreed at £28,000, and was paid in equal shares by Wright and Dobson direct to Atkinson. A Bank Account was opened in the name of the firm, into which each partner paid the sum of £1,000. For the purpose of the partnership the Assets were revalued and the following reductions in value were made: Plant and Machinery £500, Stock £450, and Furniture and Fittings £200. A Goodwill Account is to be raised in the partnership books for the difference between the total purchase price paid and the amended valuation.

You are required to make the Journal entries necessary to record the above transactions in the books of Messrs. Wright and Dobson and prepare Balance Sheet as at the commencement of the new partnership.

4. The "X" Company, Limited, was registered with a Nominal Capital of £50,000, divided into 25,000 5 per cent. Preference Shares of £1 each and 20,000 6 per cent. Preferred Ordinary Shares of £1 each and 10,000 Deferred Shares of 10*s*. each.

The following Trial Balance was extracted from the books of the Company as on December 31, 1930:—

TRIAL BALANCE.

	Dr. £	*Cr.* £
Preference Share Capital: 22,000 Shares fully paid		22,000
Preferred Ordinary Share Capital: 19,000 Shares fully paid		19,000
Carried forward		41,000

	Dr. £	Cr. £
Brought forward		41,000
Deferred Ordinary Share Capital: 10,000 Shares fully paid		5,000
Purchases	46,852	
Factory Wages	3,674	
Rates, Taxes and Insurance (7/8ths Factory)	1,288	
Sales		74,594
Office and Management Salaries	3,650	
Purchases and Sales Returns	362	597
Advertising	3,675	
Dividends	3,240	
Factory Power and Lighting	317	
Reserve Account, December 31, 1929		5,000
Carriage on Purchases	219	
Carriage on Sales	232	
Goodwill at cost	17,500	
Office Expenses	1,672	
Motor and Delivery Expenses	345	
Income Tax Reserve Account		4,310
Travellers' Salaries and Expenses	2,693	
Manufacturing Expenses	841	
Plant and Machinery at cost less depreciation	4,670	
Furniture and Fittings ,, ,, ,,	840	
Motor Delivery Vans ,, ,, ,,	1,275	
Stock December 31, 1929	9,849	
Profit and Loss Account Balance December 31, 1929		28,315
Bills Receivable	694	
Reserve for Bad Debts		500
Discount Account (balance)		694
Freehold Factory and Offices at cost	25,000	
Sundry Debtors and Creditors	29,692	8,540
Cash at Bank and in hand	9,643	
Legal Expenses and Audit Fee	327	
	£168,550	£168,550

You are required to prepare a Manufacturing Account and a Profit and Loss Account for the year ended December 31, 1930, and a Balance Sheet as on that date, taking the following matters into consideration:—

(*a*) Goods to the value of £1,250 were distributed as free samples during the year, but no entries in respect of them had been made in the books.

(*b*) The Directors' Report for 1929 contained the following recommendations:—

(i) The payment of the full dividends on the Preference and the Preferred Ordinary Shares and 20 per cent. on the Deferred Shares.

(ii) The transfer to Reserve of £5,000.

(iii) The writing down of Goodwill by £7,500.

(iv) The initiation of an Employees' Superannuation Fund (to remain invested in the business) by the transfer to that fund of £10,000.

The recommendations were duly approved and passed, but no entries were made in the books other than the record of the dividends paid and the Income Tax in respect of them.

(*c*) The Income Tax Reserve Account being considered in excess of requirements, it was decided to write back £2,000 standing to the credit of this Account. No entry had been made in respect of this.

(*d*) Depreciation is to be written off as follows :—

(i) Plant and Machinery 10 per cent.—to be charged to Manufacturing Account.

(ii) Furniture and Fittings 5 per cent.—to be charged to Profit and Loss Account.

(iii) Motor Delivery Vans 20 per cent.—to be charged to Profit and Loss Account.

(*e*) The Manufacturing Account is to be charged with £500 as representing rent of the space occupied by the Factory.

(*f*) Stock was valued as on December 31, 1930, at £10,875.

ROYAL SOCIETY OF ARTS EXAMINATIONS, MARCH 1931.

Stage III.—Advanced.

[3 hours allowed.]

1. The following was the Balance Sheet of Brown & Co. as on October 31, 1930—

	£	£		£
Capital Accounts :			Fixtures and Fittings	450
Brown	10,000		Stock	17,212
Green	8,000		Debtors	7,337
Grey	5,000		Cash	2,192
		23,000		
Sundry Creditors		4,191		
		£27,191		£27,191

Profits were shared in the proportions Brown 2/5ths, Green 2/5ths, and Grey 1/5th. Brown retired on October 31, 1930, and in accordance with the partnership agreement the firm's Goodwill was valued as on that date, being found to be worth £2,530. Green and Grey each brought in a further £2,000 Capital, and Brown withdrew his share of Capital (including Goodwill) except for £5,000, which he left as a loan to the firm.

Draw up a Balance Sheet of the firm to show the position after carrying out the above.

2. Holmes & Sons import a considerable quantity of goods from France, and keep a special Purchases Ledger, which records the sterling and currency amounts. The following is a list of

their transactions for two months with Loubet et Cie., with the amounts converted into sterling by the firm's book-keeper :—

Purchases.			*Fcs.*	£	*s.*	*d.*
1930	May	2	12,800	103	4	6
	,,	15	32,240	260	0	0
	,,	27	19,420	156	12	3
	June	3	8,715	70	5	8
	,,	24	11,465	92	9	2
Returns.						
1930	May	17	2,200	17	15	0

On June 10, 1930, a draft for the amount due at May 31 was purchased at a cost of £502 18*s.* and remitted to Loubet et Cie. You are required to enter the above transactions in the ledger of Holmes & Sons, and to bring down the balance at June 30, 1930.

3. Your employer has been recommended to adopt loose-leaf ledgers and has asked your advice. Write a brief report setting out their advantages and mention any precautions you consider to be necessary.

4. The following debits appear in the Profit and Loss Account of a Company: (*a*) Reserve for Bad and Doubtful Debts; (*b*) Discount on Debentures; (*c*) Bank Interest; (*d*) Loss on sale of investments; (*e*) Staff Bonus (10 per cent. of net profit).

State whether or not each of these items would be allowed as a Charge by the Inspector of Taxes when computing the Company's liability. Give your reasons shortly in each case.

4*a*. (*Alternative question for Candidates sitting in Ireland only. This question must not be answered by others.*)

A business in Dublin has a branch in Cork, where a separate complete set of double-entry books is kept. Separate Profit and Loss Accounts having been extracted from the books at Dublin and Cork at the end of the accounting period, state what steps are necessary to enable the combined accounts of the business to be prepared. Set out the journal entries necessary to incorporate in the Dublin ledger the detailed trading results of the Cork branch for the year ended December 31, 1930, which were as follows:—

	£		£
To Stock	380	By Sales	5,914
,, Purchases	4,520	,, Stock	410
,, Gross Profit	1,424		
	£6,324		£6,324

	£		£
To Wages	456	By Balance	1,424
,, Rent and Rates	183		
,, General Expenses	127		
,, Net Profit	658		
	£,1424		£1,424

5. On January 1, 1930, the Wholesale Distributing Co., Ltd., had an authorized Capital of £250,000 divided into 100,000 six

per cent. Preference and 150,000 Ordinary Shares of £1 each, all of which were issued and fully paid. It was resolved to increase the Ordinary Capital by £100,000 for the purpose of acquiring a competing business carried on by Henry Mason & Son. The transfer took place as from March 1, 1930, on the following terms :—

(*a*) The purchase consideration was to be £105,000 and the Company was to take over liabilities of the Vendor amounting to £20,973.

(*b*) The assets acquired were Freehold Premises £25,000, Furniture and Fittings £8,000, Stock £40,000 and Book Debts £52,973.

(*c*) The purchase consideration was to be satisfied as to £30,000 in cash, and as to the remainder by the issue of 50,000 fully paid Ordinary Shares valued at 30*s*. each.

(*d*) The Vendor was to have the right, at any time within two years of the completion of the sale, to apply any part of the £30,000 received in cash in purchasing from the Company additional Ordinary Shares at the price of 30*s*. each. On September 30, 1930, he purchased 10,000 shares in accordance with this arrangement.

(*e*) The Vendor guaranteed the Book Debts taken over by the Company.

In addition to the balances necessary to record the above particulars, the following were extracted from the books of the Company as on December 31, 1930 :—

	£
Cash at Bank and in hand	61,047
Freehold Premises as at 31/12/29	70,000
Wages	32,424
Profit and Loss Account 31/12/29—Cr. balance	6,547
Goodwill	40,000
Debenture Interest (nine months to September 30, 1930)	1,875
Motor Lorries as at 31/12/29	17,200
Sale of Motor Lorry (June 30, 1930)	70
Salaries	15,726
Rates and Water	1,800
Commission	3,316
5 per cent. Mortgage Debentures	50,000
Sales	848,900
Packing Materials	1,189
Creditors	66,288
Debtors	152,876
Stock (December 31, 1929)	76,496
General Expenses	3,632
Directors' Fees	3,500
Purchases (net)	688,248
Discounts—Dr. balance	8,505
Repairs	2,428
Furniture and Fittings as at 31/12/29	9,945
Returns Inwards	6,731
Insurance	984

	£
Debenture Redemption Fund	8,890
Debenture Redemption Fund Investments	8,420
Advertising	5,422
Lorry Expenses	7,604
Heating and Lighting	654
Transfer Fees	13
Preference Dividend	6,000
Interim Dividend on Ordinary Shares 5 per cent.	10,000
Costs of acquisition of H. Mason & Son	2,874
Bad Debts—Debts taken over from H. Mason & Son	1,252
Others	7,560

You are required to prepare Trading and Profit and Loss Accounts for the year ended December 31, 1930, and a Balance Sheet as on that date.

When preparing the Accounts the following matters must be taken into consideration—

(*a*) Stocks at December 31 were valued as follows :—
Goods £102,421
Advertising Material £629

(*b*) Motor Lorries are to be depreciated at the rate of 20 per cent. per annum. The lorry sold was included in the preceding Balance Sheet at a valuation of £200.

(*c*) The following amounts had been paid in respect of 1931 : Rates, £327; Insurance, £232.

(*d*) On December 31 a contract note was received from the Company's brokers for the purchase of investments on behalf of the Debenture Redemption Fund, costing £2,140. No entries had been made in the Company's books.

(*e*) £2,000 is to be transferred to the Debenture Redemption Fund.

(*f*) One-half of the costs of the acquisition of the business of H. Mason & Son is to be written off.

(*g*) Write off £945 from Furniture and Fittings.

ROYAL SOCIETY OF ARTS EXAMINATIONS, MAY 1931.

STAGE I.—ELEMENTARY.

[2½ hours allowed.]

1. By means of Journal entries, show how you would record the following : (*a*) Received a letter from W. Burrows informing you that he cannot allow the £2 discount you had deducted when sending him a remittance; (*b*) Write 5 per cent. Depreciation off Machinery at present valued at £1,640.

2. (*a*) Why is it necessary to take stock at the end of the financial year, and how is its value arrived at? (*b*) What entries would you make in the Ledger if the valuation of the Stock is £2,500?

Exercise I.

H. Spencer is in business as a manufacturer of furniture. On September 1, 1930, his position was as follows: Stock, £322 3*s*. 3*d*.; Cash in hand, £76 10*s*.; Cash at Bank, £930 10*s*.; Machinery and Plant, £416 2*s*. 3*d*. Sundry Debtors: G. Dickson, £75; H. Roberts, £24 14*s*. 6*d*. Bill payable, £150.

Open the accounts necessary to record the above financial position in Spencer's Ledger, and post thereto, through the proper subsidiary books, the following transactions :—

1930.

Sept. 5. Paid wages £53, out of cash.
,, 9. Purchased for £15 7*s*. job lot of brass locks and handles, paid by cheque.
,, 10. G. Dickson paid his account by cheque, deducting $2\frac{1}{2}$ per cent. cash discount. The cheque was banked.
,, 12. Drew £55 cash from Bank, and paid therefrom: Wages £40 and private expenses £15.
,, 15. Goods sold for cash £38 8*s*. 4*d*. (not banked).
,, 18. The Bill payable fell due and was met by the Bank.
,, 26. Paid wages, £40 out of cash.
,, 29. H. Roberts paid £20 cash on account. This was not paid into the Bank.
,, 29. An old gas engine, out of the factory, was sold for £12 10*s*. and the money banked.
,, 30. Sold, on credit, to Furnishers Limited one dining-room suite in oak, at £21 less 15 per cent. trade discount.

Balance the Ledger Accounts, bring down the balances, and extract a Trial Balance as on September 30, 1930.

N.B.—No Trading Account, Profit and Loss Account or Balance Sheet is to be prepared.

Exercise II.

From the following list of balances you are required to prepare (*a*) a Trial Balance, (*b*) Trading and Profit and Loss Accounts for the year ended March 31, 1931, and (*c*) a Balance Sheet as on that date :—

	£
Capital	2,400
Cash in hand	30
Bank Overdraft	150
Sales	3,500
Purchases	1,850
Carriage Outwards	50
Salaries (Office)	500
Wages (Trading Account)	750
Returns Outwards	200
Rent and Expenses	275
Stock, April 1, 1930	680
Sundry Debtors	420
Sundry Creditors	87
Plant	1,782

The Stock as on March 31, 1931, was valued at £780.

ROYAL SOCIETY OF ARTS EXAMINATIONS, MAY 1931.

Stage II.—Intermediate.

[3 hours allowed.]

1. In what Ledger or other accounts, and upon which side of such accounts, would you expect to find the following: (*a*) £500 paid for New Machinery; (*b*) £170 received from J. Robinson in full settlement of his account of £172 12*s.* 6*d.*; (*c*) £600 received from an Insurance Company in settlement of a claim for damages to premises by fire; (*d*) £75 received for the sale of old Motor Van; (*e*) £250 paid to J. Fitter in full settlement of an account due to him three months hence of £260 15*s.*

2. (*a*) Define the term "Trial Balance." (*b*) If the Debit and Credit sides of a Trial Balance agree in amount, is this conclusive evidence that the whole of the Book-keeping has been correctly done? If not, why not? (*c*) From the following list of balances extracted from the books of M. Brake prepare a Trial Balance as on March 31, 1931:—

Balances—*March* 31, 1931.

	£	*s.*	*d.*
Capital, M. Brake	13,000	0	0
Drawings, M. Brake	1,200	0	0
Purchases	11,564	9	2
Sales	23,914	12	1
Stock (April 1, 1930)	7,624	9	0
Sundry Creditors	2,715	11	6
Bills Payable	3,000	0	0
Furniture and Fittings	250	0	0
Carriage on Purchases	115	9	6
General Expenses	1,246	8	7
[illegible]	6,351	12	0
Salaries	1,286	10	6
Bank Loan (secured by a Mortgage on the Premises)	3,500	0	0
Freehold Premises	6,000	0	0
Sundry Debtors	6,214	2	3
Returns Inwards	321	3	4
Bank Charges and Interest	261	9	6
Postage and Stationery	114	6	9
Carriage on Sales	384	10	6
Discounts Allowed	633	4	5
Discounts Received	16	8	6
Cash at Bank	245	4	4
Cash in hand	23	12	3
Bills Receivable	2,310	0	0

3. A. and B. trading in partnership decide, as on March 31, 1931, to dissolve partnership and to liquidate their business.

Their Balance Sheet as on that date was as follows:—

Balance Sheet, *March* 31, 1931.

	£ *s.* *d.*		£	*s.*	*d.*
Capital Account:		Cash	1,800	0	0
A.	2,000	Sundry Debtors	2,800	0	0
B.	1,500	Other Assets	850	0	0
Sundry Creditors	2,750	Goodwill	800	0	0
	£6,250 0 0		£6,250	0	0

Profits and Losses are shared equally. The Debtors realized £2,700, other Assets £950, and the Goodwill of the business was sold for £400. The expenses of liquidation amounted to £100. Prepare the necessary accounts to show the result of the realization as it would appear in the books of the firm and the position of the two partners as regards the disposal of the balance of cash remaining after satisfying the firm's liabilities.

4. J. Last, carrying on business under the name of Last & Company as a boot and shoe wholesaler, agrees as on January 1, 1930, to admit his manager, A. Tree as a junior partner on the following terms: Profits and Losses were to be shared as to three-fourths to Last and one-fourth to Tree. Tree was to be allowed a partnership salary of £260 per annum. Last was to be entitled to draw £50 per month on account of profits and Tree £25 per month, in addition to his salary. No Interest was to be charged on Drawings, but Interest was to be allowed on Capital at 5 per cent. per annum. A Goodwill Account was to be opened for £2,000 and a similar amount credited to Last's Capital Account. Tree being unable to pay in any cash as Capital it was agreed that, should his share of profits permit, the sum of £500 per annum was to be transferred from his Current Account to his Capital Account at the close of each year until such time as his Capital Account amounted to £3,000.

On December 31, 1930, the following Trial Balance was extracted from the books of the firm :—

TRIAL BALANCE, *December* 31, 1930.

	£	£
J. Last—Capital Account		6,000
Current Account balance	100	
Drawings	600	
A. Tree—Drawing Account	300	
Goodwill	2,000	
Partnership Salary	260	
Purchases	35,233	
Carriage Inwards	462	
Advertising	806	
Salaries and Wages	2,725	
Rent, Rates and Insurance	380	
Gas and Electric Light	31	
Delivery Expenses	1,065	
Motor Vans, 1/1/30	300	
Motor Vans purchased during the year	600	
General Expenses	493	
Bad Debts	14	
Sales		47,323
Stock, 1/1/30	9,083	
Fixtures and Fittings	250	
Travellers' Salaries and Expenses	1,385	
Sundry Creditors		8,087
Sundry Debtors	7,160	
Cash in hand	50	
Bank Overdraft		1,887
	£63,297	**£63,297**

You are required to prepare Trading and Profit and Loss Accounts for the year ended December 31, 1930, and a Balance Sheet as on that date.

When preparing the accounts the following matters are to be taken into consideration for which no entries have been made in the books :—

(a) Depreciation to be provided as follows : Fixtures and Fittings, 10 per cent. p.a.; Motor Vans Old Balance, 15 per cent. p.a.; Motor Vans New, 20 per cent. p.a.
(b) Stock on hand at December 31, 1930, was agreed at £8,219.
(c) A Reserve of 2½ per cent. on the Sundry Debtors is to be made to cover Bad and Doubtful Debts.
(d) £23 was due to a traveller for commission for the December quarter.
(e) £240 was due to the firm from a certain manufacturer as a bonus on the sales of his boots during 1930.
(f) The following amount is to be carried forward : Insurance, £20.
(g) A Claim of £27 for goods lost in transit has been admitted by the Railway Company but not paid.

ROYAL SOCIETY OF ARTS EXAMINATIONS, MAY 1931.

STAGE III.—ADVANCED.

[3 hours allowed.]

1. Smith had accepted Bills payable to Robinson as follows : February 5, for £300 at 4 months; February 15, for £500 at 3 months. March 19, for £600 at 6 months; April 8, for £500 at 3 months. On May 1 it was agreed that these bills should be withdrawn and that Smith should accept on that day two bills, one for £1,000 due in four months and the other, for the balance, due in six months. Calculate the amount of the second bill, taking interest at 4 per cent. per annum. Ignore days of grace.

2. The Balance Sheet of P. Q. & Company, Ltd., drawn up as on March 31, 1930, showed Plant and Machinery valued, after writing off depreciation, at £25,500. Depreciation had been written off regularly, from the dates of purchase of the various items, at the rate of 10 per cent. per annum on the diminishing value. On June 1, 1930, a motor, which had been bought on November 1, 1925, for £750, was sold for £250 and replaced by a new one costing £1,100. Show the Plant and Machinery Account as it would appear in the Company's books for the year ended March 31, 1931, after writing off the appropriate depreciation for the year.

3. Explain clearly the difference between a hire-purchase agreement and a sale for deferred payment by instalments. Indicate what you consider a suitable method of recording the former type of transaction in the books of the seller, supposing the transactions are numerous.

4. The following Trial Balance contains certain errors.

You are required to discover them and draw up a correct Trial Balance.

	Dr.	*Cr.*
	£	£
H. Jones, Capital Account		6,000
„ Current Account (Cr.)		1,091
S. Brown, Capital Account		4,000
„ Current Account (Dr.)		57
Salaries and Wages	3,140	
Rent and Rates	520	
Sales, less Returns		22,556
Purchases, less Returns	17,245	
Stock	5,472	
Trade Debtors	10,314	
Trade Creditors		3,591
Fixtures and Fittings	550	
Manufacturing Expenses	926	
„ „ (unpaid)	102	
Office Expenses	341	
Carriage Inwards	559	
Carriage Outwards		253
Bank Overdraft		1,956
Interest on Overdraft		42
Bad Debts written off	112	
„ Reserve	250	
Cash in hand	15	
	£39,546	£39,546

5. Omicron and Pye, Ltd., have an issued Share Capital as follows, all shares being of the denomination of £1 :—

400,000 6 per cent. "A" Preference Shares.
300,000 7½ per cent. "B" Preference Shares.
1,000,000 Ordinary Shares.
50,000 Deferred Shares.

The Ordinary Shares are entitled to a non-cumulative dividend of 10 per cent. per annum and to an additional dividend in the proportion of 1 per cent. for every 30 per cent. paid on the Deferred Shares in any year. The Managing Directors are entitled to a commission equal to 5 per cent. of the amount declared by way of dividend on the Deferred Shares in any year. The balance of net profit for 1930, after paying a half-year's dividend on both classes of Preference Shares and an interim dividend of 5 per cent. on the Ordinary Shares, was £143,944. The Directors desire to transfer £20,000 to General Reserve and to distribute the maximum possible amount by way of dividends consistent with the rate declared on the Ordinary Shares being an exact multiple of ½ per cent. Prepare a statement showing the rates of dividend to be recommended and ascertain the amount of the "carry forward" to 1931.

6. Outline the routine that would be followed in a large manufacturing business in regard to the ordering and purchase of goods to be taken into store. Enumerate the various books or registers, whether concerned with the costing or any other department, in which entries relating to the receipt of the goods would appear, explaining briefly the nature and use of each of these records.

7. Salmon, Whiting and Rowe are in partnership in a trading business, sharing profits in the ratio of 5, 4 and 2 respectively. Interest at 6 per cent. per annum is allowed on partners' capital accounts, and Rowe is entitled to a salary of £300 per annum, to be debited against Salmon. The firm has taken out a Life Assurance Policy on the joint lives of the partners for £10,000, on which an annual premium of £495 is payable. The following Trial Balance was extracted from the firm's books as on March 31, 1931 :—

TRIAL BALANCE.

	Dr.	*Cr.*
Capital Accounts, 31/3/30 :—	£	£
Salmon		12,000
Whiting		8,000
Rowe		3,000
Drawings, year to 31/3/31 :—		
Salmon	2,500	
Whiting	2,000	
Rowe (including Salary)	1,500	
Gross Profit, year to 31/3/31		18,566
Sundry Debtors and Creditors	6,492	974
Fixtures and Fittings, 31/3/30	480	
Stock, 31/3/31	17,374	
Goodwill	2,000	
Cash at Bank and in hand	2,371	
Office Salaries	3,820	
Rent and Rates	1,945	
Heating and Lighting	349	
Carriage and Packing	559	
Life Assurance Premium	495	
Discount		927
Legal Expenses and Audit Fee	217	
Postage, Stationery and Telephone	312	
Staff Pensions Fund, 31/3/30		2,070
,, ,, deductions from Salaries during year		143
,, ,, Investments 31/3/31	2,045	
Pensions paid	275	
Miscellaneous Office Expenses	946	
	£45,680	£45,680

You are required to prepare the firm's Profit and Loss Account for the year ended March 31, 1931, and a Balance Sheet as on that date.

In preparing these accounts regard is to be had to the following information and instructions :—

(*a*) The following amounts were accrued and unpaid as on March 31, 1931 : Carriage £19, Heating and Lighting £23.

(*b*) £500 is to be written off the Goodwill.

(*c*) 7½ per cent. is to be written off the Fixtures and Fittings for depreciation.

(*d*) An amount equal to 5 per cent. of the salaries is to be credited to the Staff Pension Fund.

ROYAL SOCIETY OF ARTS EXAMINATIONS, JULY 1931.

Stage I.—Elementary.

[2½ hours allowed.]

1. Give the journal entries necessary to correct the following errors: (*a*) £200 posted in error to the debit of office fittings instead of machinery; (*b*) Cash Purchases, £150, posted from the Cash Book to the debit of A. Reed's Account.

2. On July 1, a trader had a stock of 5,000 articles which he valued at 1*s.* each. During July he purchased 6,000 more, costing 1*s.* 4*d.* each, but he returned 30 as they were damaged. He sold 10,000 at 2*s.* each, and valued his remaining stock at 1*s.* each. Calculate in account form the gross profit he made during the month.

Exercise I.

The following Trial Balance was extracted from the books of Michael Adams at December 31, 1930. You are required to prepare Trading and Profit and Loss Accounts for the year ended December 31, 1930, and a Balance Sheet as at that date. The Stock in Trade was valued at £562 on December 31, 1930.

Trial Balance, *December* 31, 1930.

	Dr. £	*Cr.* £
Michael Adams—Capital Account		6,145
Do. Drawings during year	1,000	
Stock in Trade at January 1, 1930	875	
Returns Inwards	273	
Sales		9,695
Purchases	4,786	
Wages	2,346	
Rent, Rates and Insurance	309	
Sundry Debtors	1,456	
Sundry Creditors		744
Carriage In	410	
Loan Interest	50	
Bad Debts	265	
Office Salaries	527	
Fixtures and Fittings	1,500	
Discount		248
Cash at Bank	700	
Cash in hand	47	
Printing and Stationery	70	
Carriage Out	158	
Plant and Machinery	3,400	
Advertising	147	
Returns Outwards		687
Bills Receivable	200	
Arthur Boyd—Loan Account		1,000
	£18,519	£18,519

EXERCISE II.

(Rule a third column in the Cash Book, if you require a third column.)

On May 1, 1930, the position of W. Remington was as follows: Cash in hand, £45 10*s.*; Cash at Bank, £355; Stock, £1,942 10*s.*; Bill Receivable, £200; W. Jarvis (Dr.), £162 10*s.*; Wages owing, £5 10*s.*; Loan from H. S. Remington, £300.

Open the accounts necessary to record the above financial position in W. Remington's Ledger, and post thereto, through the proper subsidiary books, the following transactions:—

1930.

May 5. Paid by cheque six months' interest on the loan at 5 per cent. per annum.

„ 7. Wages owing paid from Cash. Remington withdrew by cheque £50 for private purposes.

„ 9. Jarvis paid his account less £7 10*s.* discount. Cheque banked.

„ 12. Purchased by cheque Freehold Property £300.

„ 13. Sold on credit to T. Scruton goods valued £200 less 10 per cent. trade discount. Paid out of cash carriage, which was charged to Scruton, £5 6*s.*

„ 17. Goods sold for cash £40, not banked.

„ 24. Paid in cash salaries £16 10*s.* 6*d.* and trade expenses £37 10*s.*

„ 26. Repaid by cheque £100 of the loan made by H. S. Remington.

„ 29. Scruton accepted a bill for £100, and returned goods which had been invoiced to him at £18.

Balance the Ledger Accounts, bring down the balances, and extract a Trial Balance as on May 31, 1930.

N.B.—No Trading Account, Profit and Loss Account or Balance Sheet is to be prepared.

ROYAL SOCIETY OF ARTS EXAMINATIONS, JULY 1931.

STAGE II.—INTERMEDIATE.

[3 hours allowed.]

1. From the following particulars prepare a Statement showing how the difference between the Cash Book Balance and the Pass Book Balance is reconciled: Pass Book Balance—June 30, 1931, £1,401 12*s.* 6*d.*; Cash Book Balance—June 30, 1931, £557 10*s.* 1*d.* Cheques drawn prior to June 30, 1931, but not presented until after that date: P., £29 4*s.* 1*d.*; Q., £801 3*s.* 6*d.*; R., £5 14*s.* 9*d.*; S., £132 6*s.* 3*d.*

Country cheques paid into the Bank on June 30, 1931, not collected until July 2, 1931, £116 3*s.* 11*d.*; Bank Charges and Interest to June 30, 1931, not entered in the Cash Book, £8 2*s.* 3*d.*

2. (*a*) What do you understand by a "Profit and Loss Account"? (*b*) Explain the difference between a "Profit and Loss Account" and a "Trading Account."

3. Enterprise Limited was registered in 1930 with a Nominal Capital of £500,000, divided into 250,000 7 per cent. Preference Shares of £1 each and 500,000 Ordinary Shares of 10*s.* each. The Company was formed to acquire an established business,

the purchase price, £300,000, including Goodwill, being payable as follows: £50,000 in Preference Shares, £50,000 in Ordinary Shares (both fully paid), £100,000 in 4½ per cent. Debenture Stock, and the balance in cash. The balance of the Preference Shares were subscribed by the public and fully paid up and 200,000 Ordinary Shares were subscribed by the Directors and fully paid up.

The assets and liabilities taken over (at agreed values) were: Freehold Works, £75,000; Stock, £66,000; Patents and Trade Marks, £8,000; Plant and Machinery, £31,000; Sundry Debtors, £112,000; Sundry Creditors, £12,000.

Give the Journal entries necessary to record the above transactions in the books of the Company, and show its initial Balance Sheet.

4. X and Y carried on business in partnership under the title of X & Co. The following Trial Balance was extracted from their books on April 30, 1931:–

	Dr. £	*Cr.* £
X Capital Account		20,000
Y Capital Account		10,000
X Drawings Account	1,250	
Y Drawings Account	1,250	
Freehold Premises	12,000	
Machinery and Plant	4,820	
Stock, 30/4/1930	7,834	
Office Furniture and Fittings	1,200	
Manufacturing Wages	9,675	
Carriage (Factory)	952	
Purchases (Net)	33,437	
General Expenses (Factory 3/4, Office 1/4)	1,624	
Machinery Repairs	142	
Rates (Factory £660, Office £110)	770	
Advertising	10,716	
Bad Debt Reserve, 30/4/1930		500
Sundry Debtors	17,860	
Sundry Creditors		10,733
Office Salaries and Expenses	3,862	
Mortgage on Freehold Premises at 6 per cent. per annum		5,000
Sales		61,725
Sales Returns	683	
Cash in hand	100	
Bank Overdraft		543
Insurance (Factory £300, Office £26)	326	
	£108,501	£108,501

You are required to prepare Manufacturing and Profit and Loss Accounts for the year ended April 30, 1931, and a Balance Sheet as on that date. When preparing these accounts the following matters are to be taken into consideration:—

(*a*) The Partnership Deed provides that Interest is to be allowed to Partners at 5 per cent. per annum on their Capital Accounts, but no interest is to be charged on drawings.

(*b*) Profits and Losses are to be shared as to two-thirds to X and one-third to Y.

(*c*) Stock on hand on April 30, 1931, was valued by the partners at £8,931.

(*d*) The Reserve for Bad Debts is to be made up to 5 per cent. on the Sundry Debtors.

(*e*) Depreciation is to be provided as follows: Machinery and Plant, 10 per cent. p.a.; Fixtures and Fittings, 5 per cent. p.a.

(*f*) A year's interest due on the mortgage had not been paid and no entry put through the books in connection therewith (ignore Income Tax).

ROYAL SOCIETY OF ARTS EXAMINATIONS, JULY 1931.

Stage III.—Advanced.

[3 hours allowed.]

1. A applied for and was duly allotted 100 £1 shares in the X Company, Limited. He paid 5*s*. per share on application and 5*s*. on allotment, but failed to pay the call of 10*s*. per share due on March 1, 1931. On April 1, 1931, the Directors resolved to forfeit these shares and to re-issue them to B as fully paid at 12*s*. 6*d*. per share. Give the Journal entries necessary to record the forfeiture and subsequent re-issue of the shares.

2. The proprietors of a business own a number of branches in various parts of the country. These branches are supplied by the head office with all goods for sale and pay all local expenses. Describe a system of book-keeping you would recommend which would provide adequate records of the branch transactions, and at the same time constitute a strict check on the branch managers as regards both goods and cash.

3. Give a form of Cost Sheet for use in any manufacturing business with which you are familiar, showing the Prime Cost, Works Cost and Cost of Production. Insert specimen figures and explain the source from which they would be obtained.

4. The following Profit and Loss Account was prepared from the books of a company for the year ended March 31, 1930. You are required to compute the company's liability for Income Tax and to show the amount of tax payable under Schedule D for 1930–31 stating under which Case or Cases of Schedule D if will be assessed. The Wear and Tear allowance in respect of Plant and Machinery (in agreement with H.M. Inspector of Taxes) is £217.

Profit and Loss Account for the Year ended March 31, 1930.

	£		£
To Salaries . . .	3,890	By Gross Profit from Trading Account	13,838
,, Office and General Expenses . .	2,112		
,, Discounts allowed .	617		
,, Rent, Rates and Insurance . .	1,272	,, Interest on War Loan (untaxed) . .	100
,, Travelling Expenses	396		
Carried forward .	8,287		13,938

	£		£
Brought forward	8,287		13,938
To Bad Debts	417	By Taxed Dividends on Shares in allied companies	176
,, Repairs	265		
,, Advertising Press . £168 Enamel Signs . 250	418	,, Reserve for Bad Debts: Amount reserved March 31, 1929 . £672 Amount reserved March 31, 1930 . 580	92
,, Debenture Interest	300		
,, Bank Interest	14		
,, Directors' Fees	500		
,, Preliminary Expenses w/o	137		
,, Depreciation: Plant and Machinery	325		
,, Income Tax	764		
,, Net Profit	3,275	,, Discount received	496
	£14,702		£14,702

4*a*. (*Alternative question for Candidates sitting in Ireland only. This question must not be answered by others.*)

On April 1, 1931, O'Brien & Co., of Dublin, consigned to Smith Limited, of Liverpool, 50 cases of butter for sale on commission. The butter was invoiced at £10 a case *pro forma*. The consignors pay in connection with this consignment freight and insurance, £17, and the consignees pay landing charges and other expenses amounting to £8. Smith Limited sell for cash 15 cases on April 6, 1931, at £13 a case, 15 cases on April 7 at £14 a case, and the remainder at £13 10*s*. a case on April 8, on which day they forward to the consignors an Account Sales and a cheque for the amount due after deducting their commission of 2½ per cent. on sales and a further 1¼ per cent. *del credere* commission.

You are required to give the form of Account Sales and the entries which O'Brien & Co. would make in their books.

5. From the following information compile a Sales Ledger Adjustment Account, as it would appear in the General Ledger of a Trader, bringing down the balance as on May 31, 1931.

1931.		£	*s.*	*d.*
April 30.	Balance	6,784	5	2
May 2.	Bad Debt written off	6	14	7
,, 9.	Transfer from Bought Ledger (contra account)	12	9	0
,, 31.	Carriage and packing charges not put through Sales Journal	32	10	9
	Sales for month	10,184	8	1
	Returns for month	317	14	5
	Cash received during month	9,814	13	2
	Cash repaid on account overpaid	2	0	0
	Bills Receivable accepted during month	350	10	0
	Ditto dishonoured	48	15	0
	Discounts allowed during month	319	5	7
	Commission allowed to a customer on introduction of a new customer	3	10	0

6. Give the statutory form of Balance Sheet of *one only* of the following :—

(*a*) Railway Company.
(*b*) Insurance Company.
(*c*) Gas Company.

7. Under the terms of issue of Debentures to the value of £10,000 they became repayable at par on December 31, 1930. During their life the Company, in order to provide for their repayment, set aside out of profits yearly sums which were credited to a Sinking Fund. This Sinking Fund, which amounted to £10,000 on the redemption date, was partly invested in outside securities the total cost of which was £8,000, the balance being represented by cash in the business itself. The Investments were sold on December 31, 1930, for £7,300 and the Debentures were paid off. Give the entries in the Company's Ledger relative to the repayment of the Debentures.

THE LONDON CHAMBER OF COMMERCE

SENIOR COMMERCIAL EDUCATION CERTIFICATES, April 1929.

[3 hours allowed.]

1. McArthurs Limited presented Accounts to their Shareholders for the year ended December 31, 1928, showing a profit for the year of £19,784, and a balance brought forward from the previous year of £3,745.

It was proposed (*a*) to carry £5,000 to the Reserve Account (making that Account £20,000); (*b*) to pay the half-year's dividend due on the 7 per cent. Preference Capital (£50,000); and (*c*) to pay a dividend of 10 per cent., less Tax, on the Ordinary Capital (£100,000), and (*d*) to carry forward the balance to next year.

As on February 1, 1929, the warrants representing the above dividends had all been duly paid with the exception of those in respect of holdings of 500 and 100 Ordinary Shares, which remained unpresented.

You are required to make the entries necessary to record the above particulars as on February 1, 1929.

2. Submit the entries necessary to record a fresh issue of Ordinary Shares at a premium by an old-established Company. Select your own details.

3. When preparing the Accounts of a Limited Company you find that £5,000 has been received at various dates during the year representing calls paid in advance by sundry shareholders. On investigation you find that the Articles empower the Directors to receive such payments and to allow interest thereon at a rate not exceeding 5 per cent. per annum.

The Secretary of the Company informs you that no entries regarding interest have been passed through the books, as the Company has made a Loss for the year. What are your views? What entries (if any) should, in your opinion, be made?

4. In connection with the preparation of Cost Accounts, what is meant by basing Oncost on the "Machine-hour method"?

5. Blanks Limited was registered with a Nominal Capital of

£450,000, divided into 50,000 5 per cent. "A" Preference Shares, 200,000 7 per cent. "B" Preference Shares, and 200,000 Ordinary Shares, all of £1 each. On June 30, 1927, all the "A" Preference Shares, 100,000 of the "B" Preference Shares, and 150,000 of the Ordinary Shares had been issued and were fully paid with the exception of 60,000 of the Ordinary Shares on which only 15*s*. per share had been called up. The credit balance of the Profit and Loss Account, after paying the dividends, etc., sanctioned at the Ordinary General Meeting held in September 1927, was £17,343.

The Directors made the final call of 5*s*. per share on the partly paid Ordinary Shares, the due date being October 31, 1927, and the call was duly paid. In January 1928 the following interim dividends were declared in respect of the half-year ended December 31, 1927: (*a*) on both classes of Preference Shares at the rates to which they were respectively entitled, and (*b*) on the Ordinary Shares at the rate of 10 per cent. per annum calculated on the amounts from time to time paid up on the respective shares.

In addition to the balances arising from the entries recording the above, the following were extracted from the Company's books as on June 30, 1928:—

	£
Leasehold Premises	40,000
Leasehold Redemption Fund, 30/6/1927	13,200
Policy Account for Leasehold Redemption, 30/6/1927	13,200
Premium on above policy (paid 31/3/1928)	1,200
Directors' Fees	1,500
Stock in Trade, 30/6/1928	103,523
Plant and Machinery, 30/6/1927	38,000
Sundry Debtors	84,560
Sundry Creditors	23,552
Bad Debts Reserve, 30/6/1927	750
Bad Debts written off, to be charged against Reserve	372
Income Tax Reserve, 30/6/1927	8,290
Ditto paid, 1/1/1928	5,692
Salaries and Commission	7,291
Discount (Cr. Balance)	1,175
Office and Trade Expenses	2,368
Gross Trading Profit	47,537
Cash at Bank and in hand	27,391
Goodwill	75,000

You are required to prepare the Company's Profit and Loss Account for the year ended June 30, 1928, and a Balance Sheet as on that date.

When preparing these Accounts the following instructions are to be followed:—

(*a*) The Plant and Machinery is to be depreciated 15 per cent.

(*b*) The Bad Debts Reserve is to be made up to £500.

(*c*) The Policy Account for redemption of the Lease is to be debited with interest at 3 per cent. per annum on the balance from time to time standing on the Account.

THE LONDON CHAMBER OF COMMERCE.

Senior Commercial Education Certificates, Nov. 1929.

[3 hours allowed.]

1. Depreciation may be written off fixed assets by the following two methods, among others: (*a*) The "diminishing balance" method; (*b*) The "straight line" method.

Briefly compare the comparative merits of these two systems from the theoretical and practical points of view.

2. Dickson & Co., Ltd., made a public issue of 100,000 Ordinary Shares of £1 each, payable as follows:—

	2*s*. 6*d*.	on	application.
	2*s*. 6*d*.	,,	allotment (June 7, 1928).
1st Call	5*s*. 0*d*.	,,	December 1, 1928.
2nd Call	5*s*. 0*d*.	,,	March 1, 1929.
Final Call	5*s*. 0*d*.	,,	June 1, 1929.

John Jones applied for and was allotted 600 of these shares, and duly paid the amount due on allotment and the first call. He failed to pay the second call, and in May the Directors forfeited the shares, re-issuing them to William White as 15*s*. paid a few days later, at the price of 11*s*. per share. White duly paid the final call.

Show the entries recording the forfeiture and re-issue as they would appear in the Company's books of account, and the entries under the headings of Jones and White in the Register of Members and Share Ledger.

3. Dot and Dash were partners in a trading concern, interest at 5 per cent. per annum being allowed on their Capital Accounts, and the balance of profits being divisible in the ratio of 3 to 2. The firm's Balance Sheet as on September 30, 1928, was as follows:—

Balance Sheet.

	£		£
Capital—Dot . .	8,000	Lease	600
,, —Dash . .	5,000	Stock	10,407
Creditors . . .	3,192	Debtors	7,200
Bank Overdraft . .	2,074	Cash	59
	£18,266		£18,266

Blank was introduced as a partner on October 1, 1928, on the terms that he was to pay £3,000 for a one-fourth share of the Goodwill, and to bring in £2,000 as his Capital. Prior to his coming in the Lease Account was to be written up to £1,800, and a reserve made equal to 5 per cent. of the Debtors. Dot and Dash were to draw out £1,000 and £500 respectively, the balance of their shares of the payment for Goodwill being left in the business as Capital. Blank was to receive a partnership salary of £200 per annum in consideration of putting in extra working time, and ¼ of the balance of profits, while Dot and Dash (as between themselves) continued sharing profits in the same ratio as before.

The various payments, etc. having been made on October 1,

1928, you are required to draw up the opening Balance Sheet of the new firm.

A profit of £8,230 having been made for the year ended September 30, 1929, before charging partnership interest or salary, show the division of the same between the partners.

4. A manufacturing concern employs a costing system involving the use (among others) of the following records and books: Stores Received Journal; Stores Issued Journal; Stores Ledger; Abstracts of Stores issued.

Explain the meaning and use of these records and show, in particular, how they or any of them assist in: (*a*) The preparation of cost accounts; (*b*) The detection of loss or theft of stores, and (*c*) The ascertainment of the figure of stock at balancing periods for the purpose of the financial accounts.

5. Parentheses Limited was formed as a trading concern in 1925 with an Authorized Capital of £250,000, divided into 75,000 Preference Shares (7 per cent.) and 175,000 Ordinary Shares, all of £1 each. On June 30, 1928, 50,000 of the Preference Shares and 100,000 of the Ordinary Shares had been issued and were fully paid, and in November 1928 the Directors offered for subscription the balance of the Ordinary Shares at a premium of 4*s.* per share, 2*s.* 6*d.* being payable on application, 11*s.* 6*d.* (including the premium) on allotment, and the balance on May 1, 1929. The issue was fully taken up and all the allotment money paid, but on June 30, 1929, the final instalment remained unpaid in respect of 1,150 shares.

£50,000 Debenture Stock (6 per cent.) had been issued (at a discount) and was fully paid up in 1927.

In addition to the balances recording the above, the following were standing on the Company's books as on June 30, 1929:—

	£
Purchases, less Returns	254,572
Sales, less Returns	241,761
Stock: June 30, 1928	99,785
Trade Debtors	43,474
Trade Creditors	5,333
Staff Investment Fund	372
Debenture Interest (to 31/3/1929)	2,250
£2,000 5 per cent. War Loan	2,031
War Loan Interest	100
Debenture Discount Account	2,150
Profit and Loss Account: 30/6/1928 (*Cr.*)	1,092
Preference Dividend to 31/12/1928	1,750
Bank Overdraft	2,371
Cash in hand	218
Rent and Rates	3,277
Discount (*Cr.* Balance)	541
Bad Debts Reserve: 30/6/1928	1,000
,, written off	946
Salaries and Wages	7,233
Directors' Fees	2,000
Furniture and Fittings: 30/6/1928	2,780
,, ,, ,, bought 1/4/1929	160
Lease Account	52,000
Motor Delivery Vans: 30/6/1928	21,330
,, ,, ,, bought 1/1/1929	7,400

	£
Goodwill	30,000
Carriage Inwards	1,197
„ Outwards	714
Transfer Fees	41
Advertising	3,404
Office Expenses	419
Trade Expenses	2,352
Heating and Lighting	594

You are required to prepare the Company's Trading and Profit and Loss Account for the year ended June 30, 1929, and the Balance Sheet as on that date.

In preparing these Accounts the following information and instructions are to be taken into account:—

(*a*) The Stock in hand on June 30, 1929, was valued at £153,112.
(*b*) Wages accrued and unpaid amounted to £59.
(*c*) Depreciation is to be written off the Furniture and Fittings at the rate of 5 per cent. per annum, and off the Motor Delivery Vans at the rate of 20 per cent. per annum.
(*d*) The "Staff Investment Fund" was a scheme for assisting the employees to save money by lending it to the Company at interest. The interest due for the year amounted to £12, but no entries had been made in the books.
(*e*) The Bad Debts Reserve is to be made up to £1,250.
(*f*) £750 is to be written off the Lease Account, and half the Debenture Discount Account is to be written off.
(*g*) Goods costing £358 had been given away for advertising purposes, no record in connection with this having been made in the financial books.
(*h*) Income Tax is to be ignored.

THE LONDON CHAMBER OF COMMERCE.

Senior Commercial Education Certificates, May 1930.

[3 hours allowed.]

1. Explain shortly the difference between a Receipts and Payments Account and an Income and Expenditure Account. For what class of enterprise (if any) would you consider the former a desirable method of presenting its periodical Accounts?

2. Reserves may be classified under the following three headings: (*a*) Reserves for Specific Purposes; (*b*) Reserves for Contingencies; (*c*) Reserves for General Purposes.

Briefly explain, and contrast, the purposes for which these three classes of Reserves are provided, illustrating your reply by giving a few examples of Reserves falling under headings (*a*) and (*b*). How, if at all, would the provision of Reserves under each heading be disclosed in the Profit and Loss Account and/or Balance Sheet of a Limited Company?

3. How are the Profits of a Life Assurance Company ascertained? Give a *pro forma* example (as nearly as possible in the

statutory form) of the Revenue Account of a Life Assurance Company and explain shortly the meaning of any of the items you include which are peculiar to this class of business.

4. (*Candidates residing outside the British Isles may answer Question* 4 (*a*) *in place of Question* 4.)

John Jones is a married man with two children aged 10 and 12. He pays an annual premium of £27 on a life policy for £2,000 on his own life taken out in 1912. His income during 1928–29 consisted of £300 from business profits (after adjustment for purposes of Income Tax), £40 Bank Deposit Interest and £800 (net) from dividends in English Companies. Show the entries to be made on Jones' Income Tax Return for 1929–30 and calculate the amount of tax repayable to him for that year.

4 (*a*). (*Candidates residing in the British Isles must not attempt this Question.*)

On January 1, 1927, a Company purchased a 20-year lease of some premises for £30,000, and it was estimated that £3,000 should be provided against the liability for dilapidations at the termination of the lease. During 1928 the Company spent £1,900 on altering and improving the premises and during 1929 a further £900 on improvements and £550 on repairs. You are required to write up the Accounts affected by the above particulars for the years 1927, 1928 and 1929, providing for depreciation as you may think advisable.

5. Wireless Wonders, Limited, was formed on January 1, 1929, with an Authorized Capital of £150,000, divided into 75,000 8 per cent. Preference Shares of £1 each, and 75,000 Ordinary Shares of £1 each, to purchase the business of Messrs. R. Adio & Co., whose Balance Sheet as on December 31, 1928, was as follows:—

BALANCE SHEET.

	£		£
Capital Accounts	30,000	Plant and Machinery	9,600
Sundry Creditors	3,472	Fixtures and Fittings	450
Bank Loan	5,000	Loose Tools	627
		Stock	13,346
		Sundry Debtors	10,070
		Advertising Suspense	4,000
		Cash at Bank and in hand	379
	£38,472		£38,472

All the Assets and Liabilities were taken over by the new Company, the Assets at the values stated with the exception of the Plant and Machinery, which was valued at £12,000. The Sundry Debtors were guaranteed by the Vendors, and the purchase price was £50,000, satisfied by the issue of Ordinary Shares. The Preliminary Expenses and costs of transferring the business were paid by the Vendors. In order to pay off the Bank Loan and finance further development 30,000 of the Preference Shares were issued at par, in February, 1929, the issue being fully taken up and all calls duly paid. A first dividend of 1½ per cent., less tax at 4*s*., was paid on the Preference Shares up to June 30, 1929. In addition to the balances arising

from the recording of the above the following were standing in the Company's books as on December 31, 1929:—

	£
Purchases	42,519
Sales	98,930
Sales Returns	575
Manufacturing Wages	27,321
Carriage Inwards	728
Carriage Outwards	1,094
Rent and Rates (Factory £3,275, Office and Showroom £850)	4,125
Heating and Lighting (Factory £242, Office and Showroom £74)	316
Factory Power	641
Plant and Machinery (Additions during year)	4,400
Fixtures and Fittings (Additions during year)	360
Machinery Repairs	174
Income Tax paid (Schedule D)	750
Discount (Debit Balance)	1,072
Transfer Fees	17
Bad Debts	390
Miscellaneous Expenses (Factory)	417
Office and Trade Expenses	543
Advertising (Expenditure during year)	7,330
Legal Charges	260
Directors' Fees	2,000
Office Salaries	3,490
Commission (Debit Balance)	922
Patent Rights purchased	3,500
Cash at Bank	6,293
Cash in hand	240
Sundry Debtors	23,249
Sundry Creditors	2,327
Bank Interest (Credit Balance)	213
Loose Tools (purchased during the year)	409
Dividends unpaid	14

You are required to prepare a Manufacturing and Profit and Loss Account for the year ended December 31, 1929, and a Balance Sheet as on that date.

In preparing these Accounts the following information and instructions are to be taken into consideration:—

(*a*) The trading stock on hand on December 31, 1929, was valued at £19,555, and the Loose Tools at £810.

(*b*) The old Plant and Machinery is to be depreciated 12½ per cent. and the new 5 per cent.; the old Fittings 6 per cent. and the new 2½ per cent.; and one-fifth is to be written off the Patent Rights.

(*c*) The proportion of Advertising Expenditure to be carried forward is £6,500.

(*d*) The Balance of Income Tax Account is to be written off and a reserve made of £500.

(*e*) Of the Bad Debts written off, £268 represented amounts owing at December 31, 1928, the balance being debts arising after that date.

(*f*) The following amounts were accrued but unpaid on December 31, 1929: Manufacturing Wages £47, Heating and Lighting £119 (Factory £93, Office and Showroom £26).

THE LONDON CHAMBER OF COMMERCE.

Senior Commercial Education Certificates, Nov. 1930.

[3 hours allowed.]

Candidates should attempt all the questions.

1. Explain briefly under what circumstances you would expect to find an amount under the heading of "Goodwill" appearing in the Balance Sheet of: (*a*) A Partnership; and (*b*) A Limited Company.

Supposing yourself to be accountant to a Limited Company and the directors suggest debiting Goodwill Account with £10,000 and crediting the same to General Reserve, what attitude would you take up?

2. A business in London has a branch at Bombay, where a complete set of double entry books are kept, and all transactions between the London and Bombay houses are dealt with through a Current Account. The Head Office Current Account at Bombay is converted into sterling at a fixed rate of 1*s*. 4*d*. to the Rupee except as to remittances. Goods are forwarded from London to Bombay, invoiced in sterling, and periodical remittances are made from Bombay to London. Mention three different circumstances which, at the date of preparation of the annual accounts, might cause the balances of the Current Accounts as kept at London and Bombay to differ from each other. Show what adjustments would be necessary in order to reconcile and agree the balance in each case and how the differences should be dealt with in the annual accounts of the business.

3. A. Under what circumstances can (*a*) Shares, and (*b*) Debentures of a Limited Company be issued at a premium or a discount?

B. In January 1930 a Company offered for public subscription £100,000 6 per cent. Debenture Stock at an issue price of 90, payable as follows:—

On Application	£5 per £100 Stock
On Allotment	£35 ,, ,,
On September 30, 1930 . .	£50 ,, ,,
	£90

The issue was fully subscribed, allotment took place on February 15, 1930, and all amounts due in accordance with the terms of issue were duly paid. Set out the entries in the Company's books recording the issue, and show how the Balance Sheet prepared as on October 31, 1930, would reflect the position, assuming one quarter of the discount to have been written off.

4. A company occupies leasehold premises, at a rental of £2,000 per annum, payable on the usual quarter days. Show

the Rent Account as it would appear in the Private Ledger, for the year ended June 30, 1930, the payments being assumed to be made on the due dates and the entries being dealt with on a "cash" basis, *i.e.* no personal account being opened for the landlord. Schedule A tax is to be ignored.

5. The summarized Balance Sheet of Ups and Downs, Limited, as on June 30, 1929, was as follows :—

	£		£
Capital:		Goodwill . . .	150,000
Authorised and Issued:		Patents and Trade Marks . . .	115,500
200,000 8 per cent. Preference Shares of £1 each . .	200,000	Freehold Land and Buildings . .	295,000
300,000 Ordinary Shares of £1 each	300,000	Plant and Machinery	225,000
300,000 Deferred Shares of 2*s.* each	30,000	Investments (Debenture Redemption Fund) . . .	45,000
	530,000	Investment in allied Company . .	100,000
5 per cent. Debentures . . .	250,000	Motor Lorries . .	3,940
Debenture Redemption Fund . .	45,000	Furniture and Fittings . . .	1,500
Sundry Creditors .	247,893	Tools . . .	972
Bank Loan (Secured)	130,000	Stock in Trade .	112,000
		Debtors . . .	27,191
		Cash . . .	218
		Profit and Loss Account . . .	126,572
	£1,202,893		£1,202,893

In August 1929 the following scheme of reconstruction was passed and confirmed by the Court, to become operative as from July 1, 1929: The 8 per cent. Preference Shares were reduced to 10*s.* each, the rate of dividend being increased to 12 per cent., the Ordinary Shares were reduced to 4*s.*, and the Deferred Shares to 1*d.* each; each Preference Share was then divided into two shares of 5*s.* and finally all shares were consolidated into shares of £1 each. Unsecured creditors to the amount of £200,000 agreed to take new Preference Shares of equal nominal amount in satisfaction of the amounts owing to them. The credit balance available as the result of the reduction of capital was utilized in writing off the debit balance of Profit and Loss Account and writing down assets as follows :—

Goodwill	to £50,000
Freehold Land and Buildings	to £250,000
Investment in Allied Company	to £60,000

the balance being used to reduce the book value of Patents and Trade Marks.

At the same time the Nominal Capital was increased to £500,000 in 12 per cent. Preference Shares, £400,000 in Ordinary Shares and £50,000 in Deferred Shares. To provide further capital 250,000 Ordinary Shares were issued to the public at par in October 1929, £80,000 of the proceeds being applied

towards repayment of the Bank Loan. The balances standing on the Company's books on June 30, 1930, in addition to those indicated by the above particulars, were as follows:—

	£
Machinery (bought 30/9/29)	12,000
Purchases	312,419
Sundry Debtors	195,649
Trade Creditors	72,515
Cash at Bank	69,774
Cash in hand	312
Factory Wages	59,474
Factory Power	2,473
Rates, Heating and Lighting (Factory 9/10ths, Office 1/10th)	4,362
Office Salaries	2,555
Directors' Fees	2,000
Machinery Repairs	1,924
Sales	457,994
Factory Expenses	837
Travellers' Salaries and Commission	3,549
Advertising	2,933
Office Expenses	526
Legal Expenses and Audit Fee	334
Bad Debts	328
Discount (Dr. Balance)	807
Debenture Interest	9,375
Bank Interest	4,320
Dividends (from Investment in Allied Company)	2,575
Dividends (from Debenture Redemption Fund Investments)	2,700
Apprentices' Premiums	600
Transfer Fees	5

You are required to prepare a Manufacturing and Profit and Loss Account for the year ended June 30, 1930, and a Balance Sheet as on that date.

In preparing these Accounts you are to have regard to the following information and instructions:—

(*a*) The Stock-in-Trade was valued on June 30, 1930, at £123,742, and the Loose Tools at £843.

(*b*) Depreciation is to be written off the Plant and Machinery at the rate of 10 per cent. per annum, Motor Lorries 20 per cent., and Furniture and Fittings 5 per cent.

(*c*) Factory Wages amounting to £92 were accrued and unpaid, also £218 Legal Expenses and three months Debenture Interest.

(*d*) £844 had been paid for Rates for the half-year to September 30, 1930, and £250 of the Advertising Expenditure is to be carried forward. Two-thirds of the Apprentices' Premiums are to be carried forward.

(*e*) £5,000 is to be transferred to the Debenture Redemption Fund.

(*f*) £75 of the Factory Wages, and £28 of the Purchases, are to be transferred to the debit of Loose Tools.

NATIONAL UNION OF TEACHERS.

Elementary, Intermediate and Advanced, April 1929.

[3 hours allowed.]

Elementary.

1. (*a*) What is another name for the Sales Returns Book?
   (*b*) On November 1, 1928, M. Dand bought goods on credit from you value £100, and on November 10, 1928, he returned part of the goods to you as faulty. You gave him a Credit Note for £25 for them. Was the balance of his account a credit or debit balance?

2. H. Davis owed you at January 1, 1928, £100 and on June 30, 1928, you received from his Trustee in Bankruptcy a first and final dividend of 10*s*. in the £. Show by means of the journal the entry you would make in your books when you write the balance off as a bad debt.

3. W. Pearson commenced business on June 4, 1928, with Cash at Bank, £1,025; Cash in hand, £25; Furniture, £200; Fixtures, £150; Stock worth £600, and he owed A. Major £50. From the above details write up the Journal entries necessary to open his books, showing his commencing Capital. Then enter the following transactions in the proper books, post to the Ledger, and prepare Trial Balance, Trading Account, Profit and Loss Account and Balance Sheet. Close all Ledger accounts. All cheques received are paid into Bank.

			£	*s.*	*d.*
June	5.	Paid A. Major by cheque	50	0	0
,,	6.	Paid cash for postage and stamps	1	10	0
,,	6.	Bought goods from T. Piper	675	0	0
,,	7.	Sold goods to J. Lane	600	0	0
,,	8.	F. Wickstead & Co. purchased goods	150	0	0
,,	10.	Paid salaries in cash	10	0	0
,,	10.	Paid for office cleaning in cash	3	10	0
,,	11.	Returned to T. Piper goods which were faulty	25	0	0
,,	12.	Bought goods from H. Keith for cash	5	0	0
,,	13.	Bought goods from A. Major	450	0	0
,,	14.	Bought goods from D. Lockley	750	0	0
,,	15.	Sent T. Piper cheque on account	487	10	0
		He allowed discount	12	10	0
,,	16.	Received from J. Lane cheque	585	0	0
		Allowed him discount	15	0	0
,,	16.	Drew cheque for office cash	25	0	0
,,	16.	Paid salaries in cash	10	0	0
,,	16.	Paid for office cleaning in cash	3	10	0
,,	18.	Sold to J. Lane goods	950	0	0
,,	19.	Paid cheque to D. Lockley on account	487	10	0
		And was allowed discount	12	10	0
,,	20.	Purchased goods from D. Lockley	1,200	0	0
,,	21.	Sent cheque to T. Piper balance of his account	150	0	0
,,	22.	Bought from T. Piper goods value	600	0	0

			£	s.	d.
June	23.	Received cheque on account from J. Lane	487	10	0
		Allowed him discount . . .	12	10	0
„	23.	Drew cheque for salaries . . .	30	0	0
„	25.	Sold goods to G. Poyner . . .	900	0	0
„	26.	Received from F. Wickstead & Co. cheque	146	5	0
		Allowed them discount . . .	3	15	0
„	27.	Sold goods to J. Lane . . .	750	0	0
„	28.	Sold goods to A. Major . . .	250	0	0
„	28.	Paid D. Lockley a further cheque on account	250	0	0
„	29.	Received cheque on account from G. Poyner	487	10	0
		Allowed him discount . . .	12	10	0
„	30.	W. Pearson drew cheque for personal expenses	45	0	0
„	30.	Sold goods to G. Poyner . . .	1,000	0	0
„	30.	Cash Sales paid into Bank . . .	50	0	0
„	30.	Incidental expenses paid by cash . .	5	0	0
„	30.	Drew cheque for office salaries . .	30	0	0
„	30.	Paid for office cleaning in cash . .	7	0	0
		Stock on hand	750	0	0

Intermediate.

1. (*a*) Explain what you understand by B/R and B/P, Acceptance, Draft, Promissory Note; (*b*) State what is meant by Discounting a Bill.

2. J. Robinson & Co. of Halifax consigned to Howard & Hadley Ltd. of Singapore goods value £400 and paid insurance and freight on these £29 3*s*. 4*d*. Three months later they received from the consignees an Account Sales showing that the goods had realized £480, that expenses amounted to £10, and that £24 had been deducted for commission. A Draft at sight was received for the balance. Show the necessary accounts as they should appear in the books of the consignors.

3. On September 1, 1928, Messrs. T. Large & Co.'s books showed the following balances: Cash at Bank, £900. Sundry Debtors: H. Small, £200; J. Keeble, £25. Sundry Creditors: L. Flint, £187 10*s*.; Bill Receivable, £75; Bill Payable, £112 10*s*. Stock on hand, £225; Fixtures and Fittings, £375.

The following were the transactions for the month of September:—

			£	s.	d.
Sept.	3.	Received cheque from H. Small . .	195	0	0
		Allowed him discount . . .	5	0	0
„	4.	J. Mansell bought goods . . .	90	0	0
„	5.	Bought goods from A. Purdom . .	150	0	0
„	6.	Received cheque from J. Keeble . .	25	0	0
„	7.	J. Mansell returned goods which were damaged in transit	7	10	0
„	8.	Sold goods for cash	33	15	0
„	10.	Returned to A. Purdom goods which were faulty	18	15	0
„	11.	Paid by cash for repairs to Fixtures and Fittings	16	10	0

		£	s.	d.
Sept. 12.	Received from J. Mansell his acceptance at one month	82	10	0
13.	Accepted Bill drawn by A. Purdom for one month	131	5	0
14.	Received Cash from D. Trafford for sale of part of fittings	22	10	0
15.	Sold goods to B. Eldridge	120	0	0
17.	Bill payable paid by Bank	112	10	0
18.	Received cheque from B. Eldridge	120	0	0
19.	Paid L. Flint by cheque on account	146	5	0
	Discount allowed	3	15	0
20.	M. Judge purchased goods value	150	0	0
21.	Bought goods which were paid for by cheque	45	0	0
22.	Received cheque from M. Judge	146	5	0
	Allowed him discount	3	15	0
25.	Paid incidental expenses by cash	7	16	9
26.	Bought goods from B. Eldridge	45	0	0
	Bill receivable outstanding at beginning of month received by Bank	75	0	0
27.	Paid cheque to L. Flint in settlement of his account	37	10	0
28.	Cash Sales paid into Bank	63	15	0
29.	Drew cheque for Wages	20	0	0
29.	Paid Rent by cheque	20	0	0
29.	Stock on hand	195	0	0
29.	Depreciate Fixtures and Fittings	3	0	0

All cheques received paid into Bank.

Enter the above transactions in the proper books, post to Ledger, and prepare Trial Balance, Trading Account, Profit and Loss Account and Balance Sheet. Close all Ledger Accounts.

Advanced.

(Four questions only to be attempted, one of which must be No. 5.)

1. The Regent Holding Co., Ltd., acquired 150,000 shares of £1 each in a subsidiary Company. The total Capital of the subsidiary company was £225,000 and the amount per share paid by the Regent Holding Co., Ltd., was 25*s*.

The value of the net assets of the subsidiary Company was £270,000. What is the real value of the shares acquired by the Regent Holding Co., Ltd., and how should the difference between the real value and the price paid be dealt with in the books of the Holding Company?

2. A testator died on March 31, 1928. Part of his estate consisted of a mortgage of £6,000 secured on certain freehold property, interest being payable at the rate of 5 per cent. per annum on June 30 and December 31 in each year. The interest had been paid to December 31, 1927. A further half-year's interest is paid to the Executors on June 30, 1928. Draw up and balance the Ledger Account of this asset showing how you would treat the payment of this interest at June 30. (Ignore Income Tax.)

3. Priest & Field are in partnership sharing profits and losses equally. They decide to admit a third partner, Hill, and it is

mutually agreed for the purposes of the new partnership that the following alterations in the assets (as shown by the books) shall be made :—

	Book value.	*Value for new Partnership.*
	£	£
Freehold Property . .	6,000	7,500
Stock-in-Trade . . .	8,900	8,200
Fixtures and Fittings . .	1,000	750
Machinery and Plant . .	7,800	6,900
Patents and Patterns . .	2,500	1,500
Goodwill	Nil	1,000

It is further agreed that certain book debts amounting to £500 should be written off.

Prepare a Revaluation Account, first making appropriate entries in the journal, and show the disposal of the balance on this account.

4. A Railway Company decides to replace a certain asset by a more modern one. The asset originally cost £60,000 and the estimated cost of replacing this asset exactly as it was before was £75,000. The new asset is estimated to cost £130,000 and materials from the original asset are expected to produce £8,000. You are required to show how this expenditure should be apportioned between Capital and Revenue.

5. At December 31, 1927, the following balances appeared in the books of Lane Brettell, Key Manufacturer :—

	£
Lane Brettell, Capital Account	10,000
Freehold Property	2,000
Machinery and Plant	1,500
Furniture, Fixtures, etc.	310
Sales	17,900
Returns—Inwards	236
Carriage— do.	90
do. Outwards	230
Wages (Manufacturing)	8,940
Purchases	6,120
Returns Outwards	75
Drawings	650
Discounts Allowed	285
Discounts Received	60
Cash in hand	15
Cash at Bank	810
General Trade Charges	340
Bills Receivable	150
Sundry Debtors	4,400
do. Creditors	1,620
Bank Charges	8
Loan	1,200
Bad Debts	88
Rates, Insurance and Telephone	284
Power and General Manufacturing Charges	312
Reserve for Bad and Doubtful Debts	298
Stock at January 1, 1927	3,900
Office Salaries	485

Prepare Trading and Profit and Loss Account for the year ended December 31, 1927, and Balance Sheet at that date after making the necessary adjustments in respect of the following matters:—

(1) Interest due on Loan at December 31 and not passed through the books—£15.
(2) Bad and Doubtful Debts Reserve to be brought up to £440.
(3) A gas engine costing £200 had been purchased and installed just before the end of the year; this had not been paid for nor any entry made in the books.
(4) Depreciate Furniture and Fittings by 10 per cent.
(5) Depreciate Machinery and Plant by £120.
(6) Goods taken by the proprietor which have not been passed through the books amounted to £6.

The Stock on hand at December 31, 1927, was valued at £4,190.

NATIONAL UNION OF TEACHERS.

ELEMENTARY, INTERMEDIATE AND ADVANCED, May 1930.

[3 hours allowed.]

Elementary.

1. (*a*) Why is it better to keep Purchases and Sales Day Books instead of journalizing purchases and sales? (*b*) What is the difference between cash sales and goods sold on credit?

2. Explain the term "Books of Original Entry" and state what these are.

3. The following balances appeared in the books of Peter Sage and on December 31, 1929, his assets and liabilities were: Cash at Bank, £426; Cash in hand, £27; Stock, £625; Furniture and Fittings, £225; Plant and Machinery, £110; Debtors: A. Hope & Co., Ltd., £108; T. Jefferson, £53; D. Lestrade, £76; Creditors: W. Watson & Son, £123; L. Murray, £225; S. Stanger, £62. His transactions for the month of January were:

			£	*s.*	*d.*
Jan.	1.	Received cheque of A. Hope & Co., Ltd. on account	50	0	0
,,	2.	Sold goods to D. Lestrade	93	10	0
,,	3.	Sold goods to T. Jefferson	125	15	0
,,	4.	Paid cheque to W. Watson & Son and was allowed discount £3	120	0	0
,,	5.	Bought for cash goods value	5	0	0
,,	6.	Cash Sales	23	0	0
,,	6.	Paid cash for carriage		12	6
,,	6.	Paid Wages in cash	25	0	0
,,	6.	Paid sundry Trade Expenses	1	10	0
,,	8.	D. Lestrade returned goods damaged in transit	7	10	0
,,	9.	Purchased goods of W. Watson & Son	143	10	0

			£	s.	d.
Jan.	10.	Purchased goods of L. Murray	133	0	0
,,	11.	Sold goods to T. Jefferson	225	0	0
,,	12.	Received cheque from A. Hope & Co., Ltd.; wrote off the balance of their account as bad	25	0	0
,,	13.	Paid by cheque Fire Insurance premium	1	15	0
,,	13.	Drew cheque for Office use	75	0	0
,,	13.	P. Sage drew for his own use, cash	20	0	0
,,	13.	Paid cash for repairs	3	7	6
,,	13.	Paid Wages in cash	28	10	0
,,	15.	Received credit note from W. Watson & Son for goods damaged	12	10	0
,,	16.	Paid L. Murray cheque on account	100	0	0
,,	17.	Received from T. Jefferson cheque value	122	10	0
		Allowed him discount	3	5	0
,,	18.	Bought goods from S. Stanger	43	10	0
,,	19.	Sold goods to D. Lestrade for cash £5 10*s*. On credit £108			
,,	20.	Paid Wages by cheque	23	0	0
,,	20.	Paid sundry expenses in cash	2	3	0
,,	22.	Paid L. Murray cheque value	121	17	6
		and was allowed discount	3	2	6
,,	23.	Bought goods of L. Murray	72	10	0
,,	24.	Sold goods for cash	43	0	0
,,	25.	Paid into Bank from office cash	25	0	0
,,	26.	Cash purchases	7	10	0
,,	27.	Drew cheque for Office use	75	0	0
,,	27.	P. Sage drew cash for his own use	20	0	0
,,	27.	Wages paid in cash	27	10	0
,,	29.	Purchased goods from W. Watson & Son	58	0	0
,,	30.	Paid to S. Stanger cheque value	60	0	0
		and was allowed discount	2	0	0
,,	31.	Stock on hand	657	0	0

Interest to be allowed on capital £2 10*s*. All cheques received paid into Bank.

Enter the above transactions in the proper books, post to the Ledger, balance all accounts, and prepare Trading Account and Profit and Loss Account and Balance Sheet.

Intermediate.

1. Explain what is meant by (*a*) negotiable, (*b*) renewing a bill, (*c*) bill of lading.

2. On September 1, 1929, Dover and Son of London consign to Mitchell Bros. of Malta goods to be sold by them invoiced at £600. Dover and Son pay, in connection with the consignment, Carriage, Freight and Charges £475. Mitchell Bros. sold the goods and on December 1, 1929, forwarded to Dover and Son an Account Sales and a Bank Draft for the net amount realized, £1,320. Enter the above transactions in the Ledger showing the profit or loss realized.

3. Enter the following transactions in the proper books and post to the Ledger Account.

1930.			£
Jan.	1.	Received from J. Holder Bill at 4 months.	200
,,	3.	Received Acceptance from N. Marshall dated January 3, 1930, at 10 days after date	275
,,	5.	D. Parsons accepted a Bill at 3 months drawn by me	125
,,	9.	Discounted at Bank Bill Receivable (J. Holder) being charged £2 5*s.* discount.	
,,	13.	Bill receivable given by N. Marshall due this day returned dishonoured, the Bank charging 2*s.* for noting expenses.	

4. From the following Trial Balance prepare Trading Account, Profit and Loss Account and Balance Sheet at December 31, 1929, after allowing for: (*a*) Interest on Capital £670; (*b*) Depreciation to be written off: Plant and Machinery £202 17*s.* 6*d.*, Land and Buildings £25 10*s.*; (*c*) Reserve for Bad and Doubtful Debts to be increased to £650.

Trial Balance.

	Dr. £	*s.*	*d.*	*Cr.* £	*s.*	*d.*
J. C. Vance—Capital Account				13,500	0	0
Purchases	18,574	17	0			
Returns Outwards				3,145	16	3
Plant and Machinery	2,025	17	6			
Office Furniture	230	4	3			
Sundry Debtors	8,466	13	4			
Sundry Creditors				1,799	10	7
Wages	3,196	14	8			
Office Salaries	601	1	11			
Rent and Rates	464	3	6			
Repairs and Renewals	463	2	9			
Leasehold Land and Buildings	2,150	0	0			
Drawings	1,700	0	0			
Sales				27,913	11	4
Returns Inwards	2,143	12	9			
Carriage and Cartage	314	6	10			
Stock at December 31, 1928	4,166	4	11			
Travelling Expenses	253	2	1			
Bills Receivable	1,239	11	4			
Bills Payable				657	1	8
Bad Debts	106	13	6			
Bank Charges	58	2	9			
Trade Expenses	279	16	3			
Commission	87	4	11			
Cash at Bank	638	2	10			
Cash in hand	39	12	8			
Discounts received				147	5	6
Discounts allowed	132	3	6			
Reserve for Bad and Doubtful Debts				210	0	0
Ground Rent	41	16	1			
	£47,373	5	4	£47,373	5	4

Stock-in-Trade at December 31, 1929, £4,513 10*s.* 1*d.*

Advanced.

(Four questions only to be attempted, two of which must be Numbers 4 and 5.)

1. The Doughty Retailers Co., Ltd. was incorporated on September 30, 1929, having a capital of £150,000 in shares of £1 each and 1,500 Debentures of £100 each. Cash for both the shares and debentures had been paid by the date named, thus the shares and debentures were fully subscribed.

The Company took over an existing business, purchasing and paying for the following assets on October 31, 1929, viz.: Cash at Bank, £15,000; Sundry Debtors, £120,000; Stock-in-Trade, £150,000; Fixtures and Fittings, etc., £6,000; Freehold Premises, £9,000; Goodwill, £36,000. In addition the Company agreed to discharge the liabilities, £36,000, as part of the purchase price. You are required to open the books of the Company and prepare a Trial Balance therefrom.

2. A married man without children is employed as a manager of a retail shop, his salary being £600 per annum. He owns the house in which he lives, the net Schedule A assessment of this being £35. What is his assessable income, and how much tax should he pay for the fiscal year 1929–30?

3. From the following particulars prepare the necessary adjustment account relating to the Sales Ledger of a Trader who keeps this ledger on the "self-balancing" principle.

		£	s.	d.
Oct. 31.	Sundry Debtors	14,419	6	2
Nov. 30.	During the month to date the transactions were as follows:—			
	Sales on credit	11,601	3	5
	Returns Inwards	120	1	11
	Cash received from debtors . .	7,415	18	0
	Discounts allowed to debtors . .	249	14	4
	Acceptances received from debtors .	693	12	8
	Acceptances returned dishonoured .	91	10	0
	Bad debts written off . . .	137	0	0
	Sundry items debited to debtors .	5	17	5

4. In order to equalize the annual charge for repairs and renewals a Company on December 31, 1924, created a Repairs and Renewals Reserve Account by charging Revenue with £200 and this sum was made, of course, an annual charge to Revenue.

	£	s.	d.
For the year ended Dec. 31, 1925, the Repairs and Renewals amounted to	101	10	0
For the year ended Dec. 31, 1926, the Repairs and Renewals amounted to	147	18	9
For the year ended Dec. 31, 1927, the Repairs and Renewals amounted to	119	12	2
For the year ended Dec. 31, 1928, the Repairs and Renewals amounted to	174	2	10

You are required to give the Journal and Ledger entries of the above transactions and to show also what entries would appear in each year's Balance Sheet.

5. From the following details prepare Manufacturing and

Trading Accounts for the year ended December 31, 1928. The Manufacturing Account should be set out in two parts, namely, (*a*) Prime Cost Account and (*b*) Cost of Production (or Total Cost) Account.

	£	*s.*	*d.*
Stocks at January 1, 1928 :—			
Raw Materials	3,300	7	9
Partly manufactured goods	4,029	3	8
Manufactured (finished) goods	2,670	18	0
Raw Materials purchased	12,006	10	1
Carriage on do.	204	11	10
Wages (Productive)	11,390	14	2
Factory Oncost :—			
Rent, Rates, Taxes and Insurance	610	10	10
Gas, Fuel, Water, Lighting and Heating	615	7	0
Royalties	158	3	11
Wages and Salaries	909	3	9
Repairs, Renewals and Depreciation of Machinery, Tools, etc.	852	18	8
Interest on Capital Expenditure represented by Machinery, Plant, Tools, Land and Buildings	1,218	17	6
Sales	36,401	0	9
Returns Inwards	997	14	6
Proportion of Factory Oncost on Partly Manufactured Goods (£4,029 3*s.* 8*d.*) brought forward from previous year	780	12	3
Proportion of Factory Oncost on Partly Manufactured Goods (£5,170 14*s.*) carried forward to next year	920	15	7
Stocks at December 31, 1928 :—			
Raw Materials	2,268	1	1
Partly Manufactured Goods	5,170	14	0
Manufactured (finished) Goods	2,910	16	6

NATIONAL UNION OF TEACHERS.

ELEMENTARY, INTERMEDIATE AND ADVANCED, April 1931.

[3 hours allowed.]

Elementary.

1. P. Piper, a retail tobacconist, asks you what books of account he should keep. All his sales are for cash, and he makes some purchases by cash but buys chiefly on credit. What would be your advice?

2. From the following particulars draw up the Balance Sheet of A. Rutter as at December 31, 1930: A. Rutter owed to Sundry Creditors £350; there were debts due to him by sundry persons amounting to £450; he had cash at Bank £300; his Stock-in-Trade was valued at £550 and Fixtures and Fittings £100. On January 1, 1930, his capital amounted to £980; his profits during the year were £320 and his drawings £250. Give these details in the Balance Sheet when showing A. Rutter's capital therein at December 31, 1930.

3. From the following Trial Balance of T. Betnall, prepare

the accounts necessary to show the gross profit and the net profit for the year ended September 30, 1930.

N.B.—A Balance Sheet is not required.

TRIAL BALANCE, *September* 30, 1930.

	£	£
T. Betnall—Capital Account at October 1, 1929		3,044
Purchases	5,000	
Sales		10,000
Salaries	1,050	
Rent, Rates, etc.	320	
Sundry Creditors		1,200
Discounts received		200
,, allowed	310	
Lighting and Heating	114	
Stationery, Printing and Advertising . .	390	
T. Betnall—Drawings	500	
Stock at October 1, 1929	2,740	
Postage and Telephone	28	
Sundry Debtors	1,700	
Carriage	292	
Cash at Bank and in hand	1,460	
Fixtures and Fittings	210	
General Trade Charges	330	
	£14,444	£14,444

The Stock at September 30 was valued at £2,200.

4. L. S. Tree started business on March 1, 1930, with a Capital of £2,000 in cash, which he had banked. The following are his transactions during the month :—

			£	*s.*	*d.*
Mar.	2.	Bought goods and gave cheque for same	200	0	0
	2.	Paid for fixtures and fittings by cheque .	190	0	0
	4.	Sold goods on credit to R. Hampton .	50	10	0
	6.	Sold goods for cash	10	2	6
	8.	Sold goods on credit to D. Street . .	39	18	0
	10.	Bought goods on credit from L. Lyte .	95	0	0
	12.	Bought goods on credit from C. Gresham	115	15	0
	14.	Received cheque from R. Hampton .	49	5	0
	14.	Allowed him discount	1	5	0
	16.	Paid L. Lyte cheque (after deducting discount £4 15*s.*)	90	5	0
	18.	Drew cash from Bank for office use .	20	0	0
	18.	Paid Salaries in cash	10	0	0
	20.	Drew from office cash for own use . .	5	0	0
	22.	Paid cash for sundry office expenses .	1	17	6
	24.	Sold goods on credit to D. Street . .	67	15	0
	26.	Paid cheque on account to C. Gresham .	75	0	0
	28.	Received cheque on account from D. Street	50	0	0
	29.	Paid Rent by cheque	5	0	0

Enter these transactions in the proper books, post to the Ledger, bring down the balances and prove the correctness of your work.

Cheques received were paid direct to Bank.

Intermediate.

1. M. Maker is a manufacturer (not in a large way of business) who makes three classes of goods, viz. window fittings, door furniture, and sundry goods such as coat hooks. So far the only books he has kept have been a Cash Book (dealing with cash only) and a Sales Ledger. He buys and sells principally on credit, but has a few cash transactions as regards purchases and sales. In order to arrive at his correct annual profits and financial position, what other books would you advise him to keep which would also show the gross profit on each class of goods manufactured by him?

2. Give the journal entries necessary to correct the following errors which had been made by a clerk in the employ of a firm of drapers :—

(*a*) Yelland & Co., Ltd., had been debited with goods amounting to £78 instead of being debited with £60, and Yelland & Sons with £18.
(*b*) X. Wilson had been debited and bank credited with £48 instead of £4 8*s*.
(*c*) Haberdashery account had been debited and T. Vernon credited with £25 instead of Vernon Bros.
(*d*) Cash had been debited and bank credited with £150 instead of £250.
(*e*) Gloves account had been credited and A. Unite debited with £5 instead of the latter being debited to cash.
(*f*) Bank had been debited with £40 and I. Twist had been credited with this sum which should have been passed to the credit of I. Grist.
(*g*) L. Rover had been debited and T. Saul credited with £30, whereas the correct amount should have been £80.
(*h*) A cash receipt of £21 had been posted to the Discount Account instead of Gloves Account.
(*i*) Salaries Account had been debited with £40 instead of Drawings Account.
(*j*) L. Marne ought to have been credited with £10, but this had been wrongly credited to Bad Debts Account.

3. Eales, Meanley & Nairn are partners sharing profits and losses as to Eales one-half, Meanley one-third, and Nairn one-sixth. Their capitals at January 1, 1929, were : Eales, £6,000; Meanley, £4,000, and Nairn £2,000.

They are entitled to 5 per cent. interest on their Capitals, no interest chargeable on drawings, and Meanley is to receive a salary of £500 and Nairn £300 before dividing profits. The profit for the year ended December 31, 1929, before making any of the above adjustments amounted to £3,800. On account of salaries, interest and profits, the partners had drawn during the year the following sums, viz. Eales £1,000, Meanley £750, and Nairn £500. You are required to set out the Appropriation of Profit Account and the Partners' Capital Accounts as these would appear in the Private Ledger at December 31, 1929.

4. After correcting the following Trial Balance (set it out again as it should appear), prepare Trading Account and Profit and Loss Account for the year ended December 31, 1930, and Balance Sheet at the latter date.

TRIAL BALANCE, *December* 31, 1930.

		£
Capital .		7,670
Cash in hand		30
Purchases .	8,990	
Sales . .		11,060
Cash at Bank	885	
Fixtures and Fittings	225	
Freehold Premises	1,500	
Lighting and Heating	65	
Bills Receivable		825
Returns Inwards		30
Salaries .	1,075	
Sundry Creditors		1,890
,, Debtors	5,700	
Stock at January 1, 1930	3,000	
Printing and Stationery	225	
Bills Payable . .	1,875	
Rates, Taxes and Insurance	190	
Discounts received .	445	
Discounts allowed .		200
	£24,175	£21,705

Stock on hand at December 31, 1930, £1,800. Depreciate Fixtures and Fittings by £25 and make a reserve of £235 for Bad and Doubtful Debts.

£35 was due and unpaid in respect of Salaries while Rates and Insurance had been paid in advance to the amount of £40.

Advanced.

1. State where you would expect to find the following items; namely, whether on the assets or liabilities side of the Balance Sheet or the Dr. or Cr. side of the Profit and Loss Account:

(*a*) Premium on an issue of shares by a limited company; (*b*) discount on an issue of debentures by a limited company; (*c*) investments in Government stock; (*d*) income tax; (*e*) good-will; (*f*) reserve for bad and doubtful debts; (*g*) an amount written off preliminary (or formation) expenses; (*h*) royalties (in the case of a concern manufacturing a patent article); (*i*) capital reserve account; (*j*) bills receivable (discounted—all good).

2. Dee, Fay & Gee were partners sharing profits and losses as to Dee four-eighths, Fay three-eighths, and Gee one-eighth. They decided to dissolve the partnership and to dispose of their business as at December 31, 1930, when their Balance Sheet stood thus:—

BALANCE SHEET.

Liabilities.			*Assets.*	£
Capital Accounts:—			Sundry Assets . .	13,000
	£	£		
Dee . .	5,000			
Fay . .	3,000			
Gee . .	2,000			
		10,000		
Sundry Creditors		3,000		
		£13,000		£13,000

The Sundry Assets realized £16,000 and in addition they received £3,000 for Goodwill. The expenses of realization amounted to £300, and for conducting the realization it was agreed that Gee should be paid £400. At December 31 there was due to each partner interest at 5 per cent. on their capitals and £400 each to Fay and Gee in respect of salaries. Prepare Realization Account showing the profit made and its allocation among the three partners and Cash Account and Partners' Capital Accounts after payment of the final amounts due to them.

3. T. Alton, having supplied W. Burr with goods to the amount of £2,500, draws a bill of exchange on W. Burr on January 1, 1929, at six months for that sum. W. Burr having duly accepted the bill, T. Alton discounts it with S. Carfax on January 4, 1929, at 5 per cent. per annum. On presentation at W. Burr's bankers the bill is dishonoured, the charges for noting and expenses being 5*s*. On July 5 W. Burr pays cash to T. Alton £1,000 on account, and, as regards the balance then due plus interest at the rate of 5 per cent. per annum, accepts three bills of equal sums payable at two, four and six months respectively. Give the entries for these transactions as they should appear in T. Alton's Cash Book and the various Ledger Accounts.

(*N.B.*—No journal entries or entries in subsidiary books required.)

4. At January 1, 1928, a trader had the following assets and liabilities :—

	£
Assets	
Cash	750
Stock-in-Trade	1,500
Debtor—R. Avon	1,200
Liabilities :	
Creditor—O. Stour	750

During the year ended December 31, 1928, he had the following transactions :—

	£
Bought goods on credit from O. Stour	9,500
Sold goods on credit to R. Avon	12,000
Received cash from R. Avon	10,000
Paid cash to O. Stour	7,550
,, ,, for rent	150
,, ,, for salaries	350
,, ,, for sundry expenses	80
Drawings	720

Prepare Cash Account (in simple form), other necessary accounts, Trading Account, Profit and Loss Account and Balance Sheet at December 31, 1928. The Stock at the latter date amounted to £2,250. (*N.B.*—Nominal accounts need not be raised.)

UNION OF LANCASHIRE AND CHESHIRE INSTITUTES.

SENIOR BOOK-KEEPING (FIRST, SECOND, AND THIRD YEARS)
April 1931.

[Time allowed: 1st year, 2½ hours; 2nd and 3rd years, 3 hours.]

FIRST YEAR.

(You must first answer not more than three of the questions in Part I, and afterwards attempt the statements of account in Parts II and III of this year.)

Part I.

1. Charles Smith, 14 Cheapside, Tranmere, claims from William White, 17 Hill Street, Liverpool, an allowance of £5 for overcharge on goods supplied by White. Give the form of note White would send to Smith when he makes the allowance for the overcharge. [10 marks.]

2. Explain the method of keeping the Petty Cash Book on the "imprest" system, and show, by example, the working of the system. [15 marks.]

3. *Liverpool,*
£101 0 0 *January* 10, 1931.

Three months after date pay to William Rhodes or order the sum of one hundred and one pounds for value received.

To ROSS WILD, ESQ., ALEC BELL.
Huddersfield.

Assuming that the above bill of exchange was duly accepted, state: (1) the acceptor; (2) the drawee; (3) the payee; (4) the drawer.

What stamp duty is payable on the bill? What is the due date of the bill? [10 marks.]

4. Explain the following: (*a*) bad debt; (*b*) asset; (*c*) debit note; (*d*) personal account. [10 marks.]

Part II.

The following balances appeared in the books of A. Wood on January 1, 1931: Cash at Bank, £400; Cash in hand, £35. Sundry Debtors: A. Sweet, £40; B. Brown, £30; R. Good, £95. Office Furniture and Fittings, £70. Sundry Creditors: A. Long, £60; B. Small, £75; and stock of goods, £450.

Ascertain his capital, and open the books by means of the Journal.

The following were his transactions for the month of January. Enter up the various books of account, post to the Ledger, and take out a Trial Balance.

N.B.—No Profit and Loss Account or Balance Sheet is required, but the Cash Book must be balanced.

1931.			£	*s.*	*d.*
Jan.	2.	Bought goods from A. Long . . .	70	0	0
„	2.	Paid B. Small cheque in settlement of his account	70	0	0
„	3.	Drew cheque for, and paid, salaries .	15	0	0

1931.			£	s.	d.
Jan.	3.	Drew cash for private purposes . .	10	0	0
,,	3.	Bought goods of B. Small . . .	45	0	0
,,	7.	Received cheque from A. Sweet . .	38	0	0
,,	7.	Allowed him discount	2	0	0
,,	7.	Ready money sales	100	0	0
,,	8.	Paid cash to Bank	140	0	0
,,	8.	Paid cheque to A. Long	60	0	0
,,	10.	Paid salaries by cash	15	0	0
,,	10.	Drew cheque for private purposes . .	10	0	0
,,	13.	Paid Rent by cheque	25	0	0
,,	14.	Cash sales	80	0	0
,,	15.	Paid cash to Bank	70	0	0
,,	15.	Sold goods to B. Brown	50	0	0
,,	17.	Paid salaries by cash	17	10	0
,,	17.	Sent R. Good Credit Note for overcharge in December account	5	0	0
,,	21.	Ready-money sales for week . . .	120	0	0
,,	24.	Bought additional typewriter for cash .	15	0	0
,,	24.	Paid salaries by cash	17	10	0
,,	28.	Bought goods of A. Long	52	10	0
,,	31.	Paid carriage account for month by cash .	5	10	0
,,	31.	Drew a bill on R. Good, payable three months after date, which he accepted for	90	0	0

[45 marks.]

Part III.

From the following Trial Balance of T. Merchant prepare Trading and Profit and Loss Accounts for the year ended March 31, 1931, and Balance Sheet as at that date. The Stock on hand at March 31, 1931, was valued at £750.

TRIAL BALANCE, *March* 31, 1931.

	£	£
T. Merchant—Capital		1,250
,, —Drawings	500	
Purchases	4,300	
Returns outwards		150
Sales		6,760
Stock (April 1, 1930)	800	
Returns inwards	100	
Discounts allowed	135	
Sundry Debtors	776	
Carriage	75	
Sundry Creditors		620
Rent and Rates	280	
Salaries	650	
Discounts received		21
Bad Debts	40	
Shop Fittings and Fixtures	475	
Cash at Bank	640	
Cash in hand	30	
	£8,801	£8,801

[20 marks]

SECOND YEAR.

You must first answer not more than three of the questions in Part I, and afterwards attempt the statements of account in Parts II and III of this year.)

Part I.

1. What is a negotiable instrument? Are—(*a*) cheques, (*b*) bills of exchange, negotiable instruments? Give your reasons. [10 marks.]

2. Name three of the classes into which assets are divided, and give two examples of each class. [10 marks.]

3. What is meant by Goodwill in a business? If you buy an established business and pay £1,000 for the Goodwill, how would this be shown in your Balance Sheet? [10 marks.]

4. Give a ruling for a bills receivable book. Make some specimen entries and state how these would be posted to the ledger. [15 marks.]

Part II.

S. Rathbone and W. Green were partners in a drapery business with equal capitals, and on January 1, 1931, the following was the financial position of the firm. Cash in hand, £58 18*s.* 6*d.*; Stock-in-trade, £2,338 12*s.* 6*d.* Bills payable, £600. Debtors: A. Lord, £66 6*s.* 3*d.*; W. Firth & Co., £129 19*s.* 7*d.*; bank overdraft, £430 1*s.* 6*d.*; Warehouse Fixtures, etc., £750. Creditors: G. Ridgfield & Son, £313 15*s.* 4*d.*

You are required to open the accounts necessary to record the above, and to post, through the proper subsidiary books, the following transactions.

Balance the Cash Book and take out a Trial Balance as at January 31, 1931.

No Profit and Loss Account or Balance Sheet is required.

1931.

Jan. 2. Sold to W. Firth & Co., 1,000 yards art. silk at 1*s.* 3*d.* per yard, 1 gross pairs gloves at £3 per dozen pairs, all subject to 10 per cent. trade discount.

„ 3. Paid cheque to G. Ridgfield & Son in settlement of account, less £15 13*s.* 4*d.* discount allowed.

„ 6. Sold some old fixtures for £50 cash.

„ 7. Paid £60 cash to Bank.

„ 8. Received cheque (paid to Bank) from A. Lord, £65 10*s.*, discount allowed 16*s.* 3*d.*

„ 9. Borrowed £500 from S. Murgatroyd at 5 per cent. interest, cheque paid to Bank.

„ 17. Paid Wages in cash, £12 10*s.*

„ 19. Bought from G. Ridgfield & Son, 15,000 yards of art. silk at 1*s.* per yard.

„ 20. Sold to A. Lord 1,500 art. silk at 1*s.* 6*d.* per yard.

„ 21. Arranged with Garlick & Co., Ltd., holders of the Bill payable £600 due this day to withdraw it in exchange for cheque £300 and a further Bill at two months for £305 (the £5 being for interest and expenses).

1931.
Jan. 22. Bought goods from G. Ridgfield & Son, £83 11*s*. 10*d*.
„ 24. S. Rathbone withdrew £30 by cheque.
„ 24. W. Green withdrew in cash £10.
„ 26. Paid by cheque Fire Insurance premium £7 10*s*.
„ 27. Received from W. Firth & Co. in settlement of account, three months' bill for £100 and cash £29 10*s*., allowed discount 9*s*. 7*d*.
„ 29. W. Green paid into Bank £250 additional capital.
„ 31. Cash sales £318 13*s*. 3*d*., paid £300 into Bank.

[45 marks.]

Part III.

S. Woolley and A. Gaskell were partners in a business and shared profits equally. The following Trial Balance was taken from their books at December 31, 1930. From it and the other information given you are required to prepare a Trading Account, Profit and Loss Account, and a Balance Sheet as at that date.

TRIAL BALANCE, *December* 31, 1930.

	£	£
Purchases	13,686	
Bad Debt reserve		150
Warehouse Wages	367	
Returns outward		170
Carriage inward	423	
Bad Debts	303	
General Expenses	560	
Motor Lorries	700	
Stock, January 1, 1930	2,361	
Debtors	2,860	
Creditors		3,651
Sales		15,328
Office salaries	256	
Capital Account, S. Woolley		2,500
„ A. Gaskell		1,000
Current Account „		60
„ S. Woolley	680	
Cash at Bank	663	
	£22,859	£22,859

Make the following adjustments:—

Stock December 31, 1930, £3,246.
Reserve for doubtful debts to be maintained at 5 per cent. on debtors.
Motor Lorries are valued at £600.
General Expenses Account includes £120 paid for rates for year ending March 31, 1931.
Interest on Capital at 5 per cent. per annum.

[20 marks.]

THIRD YEAR.

(You must first answer not more than three of the questions in Part I, and afterwards attempt the statements of account in Part II of this year.)

Part I.

1. The Super Radio Co., Ltd., owing to expanding business, decided to issue additional shares and debentures. The former were of the nominal value of 5*s*. and were issued at a premium of 100 per cent. 100,000 shares were applied for on these terms. Debentures to the nominal amount of £50,000 were issued at 95 per cent. In each case 20 per cent. of the amount actually payable was to be paid on application and the balance on allotment. All instalments were duly paid. In the journal give all the entries necessary to record these transactions (including the cash entries). [20 marks.]

2. On March 31, 1929, a firm bought new machinery at a cost of £2,500 to replace old plant standing in the books at £700 and which was disposed of for £150. The estimated life of the new plant is 15 years. Write up the Machinery and Plant Account for the years 1929 and 1930, writing off such depreciation as you consider necessary, and name the factors you took into consideration in fixing the rate of depreciation. [20 marks.]

3. A limited liability company has the following classes of capital: $7\frac{1}{2}$ per cent. participating preference shares; 6 per cent. cumulative preference shares; preferred ordinary shares; deferred ordinary shares; founders' shares. Explain each of these terms. [20 marks.]

4. The Excelsior Company (1924), Ltd., decided to wind up, and at December 31, 1930, the Balance Sheet was as under :—

	£		£
Capital 80,000 shares of £1 each, all issued	80,000	Freehold Premises	30,000
Less calls in arrears	15,000	Machinery and Plant	25,000
	65,000	Debtors	8,500
Bank Loan (secured by a mortgage on premises)	7,000	Profit and Loss Account	27,000
Creditors, unsecured	18,500		
	£90,500		£90,500

Preferential creditors not included above amounted to £125. Machinery realized £8,600, and Bank sold the premises for £10,000, out of which they retained their debt with £300 interest and handed balance to Liquidator. Debtors realized £7,000 and calls from shareholders £1,500. Liquidator's expenses were £250, and he was entitled to a remuneration of 3 per cent. on assets realized by him.

Show by means of a Cash Account the liquidator's dealing with the affairs of the Company. [20 marks.]

5. A. Hargreaves is in business as a hosier and his summarized Profit and Loss Account for 1930 is given below :—

	£		£
Rent, Rates, and Taxes (including £23 Income Tax)	464	Gross profit	1,873
Sundry Expenses (including donations £15)	130	Dividend on War Loan (gross)	50
Bad Debts written off	36	Dividend on shares (net)	31
Bad Debt reserve	50		
Wages and Salaries (including £200 to self)	790		
Depreciation of Fixtures	100		
Renewals of Fixtures	86		
Interest on Capital	50		
	1,706		
Profit	248		
	£1,954		£1,954

Adjust this account for Income Tax purposes.

Show his total income from all sources for Income Tax purposes, and state what allowances he would be entitled to. He is unmarried and has no insurances. [25 marks.]

Part II.

Swift and Sure Limited abstracted the following balances from their books at December 31, 1930. From these balances and the other particulars given you are required to prepare a Trading Account, Profit and Loss Account, and appropriation account for the year 1930 and a Balance Sheet at that date.

	£
General Reserve	500
Preliminary Expenses	2,700
Wages	8,926
Sales	82,147
Purchases	53,328
Bad Debts	370
Profit and Loss Account, debit balance	1,890
Freehold Premises	20,000
Debenture interest for half-year to July 1, 1930	500
Discount received	1,630
Salaries	2,500
General Office Expenses	1,866
Machinery and Plant	15,000
Unclaimed Dividends	320
Debtors	16,250
Office Furniture	750
Creditors	8,836
Transfer fees	35
Bank Balance	11,461
Directors' Fees	500
Stock, January 1, 1930	22,427

The Capital of the Company was £100,000 divided equally into ordinary and 6 per cent. cumulative preference shares of £1 each. 15,000 ordinary shares and 30,000 preference shares were issued and fully paid on January 1, 1930. The preference dividend was in arrears for the years 1928 and 1929. During the year 1930, the Goodwill of the business of The Safety First Co. had been purchased for £5,000, and this had been paid for by the issue of ordinary shares at par. These transactions had not been entered in the books. There was a mortgage debenture issue of £20,000 at 5 per cent.

Other adjustments :—

Stock, December 31, 1930, £25,211.
Depreciate Machinery and Plant at the rate of 5 per cent. per annum.
Depreciate Office Furniture at the rate of 10 per cent. per annum.
Provision for Income Tax owing, £3,500.
Wages owing, £186.
Provide a reserve of 2 per cent. on debtors for doubtful debts.
After writing off all preliminary expenses and paying preference dividend, 25 per cent. of profit remaining to go to General Reserve Account. [35 marks.]

UNION OF EDUCATIONAL INSTITUTIONS.

BOOK-KEEPING : S 3, April 1929.

[3 hours allowed.]

Part I.—Compulsory.

1. Arthur Baker had carried on business for a number of years as a sole trader. On January 1, 1928, he took his manager, Ernest Cooper, into partnership, on the following conditions :—

1. Cooper to pay into the firm's account £2,000 for his share of Goodwill, and £5,000 by way of Capital.
2. Baker to draw out £1,000 of the above £2,000 on January 1, 1928, the remaining £1,000 to be added to his Capital, which stood in the books on December 31, 1927, at £5,000.
3. Profits and losses to be shared in the proportions of two-thirds to Baker and one-third to Cooper.
4. Baker to have a partnership salary of £400 per annum, and interest at 5 per cent. per annum to be allowed on Capital but not charged on drawings.

At June 30, 1928, the following balances stood in the books of the firm, in addition to any other balances indicated by Clauses 1 and 2 above :—

	£	s.	d.
Plant and Machinery	4,896	13	4
Motor Lorries	1,500	0	0
Stock, January 1, 1928	4,782	13	9

	£	s.	d.
Sales	16,420	0	9
Purchases	9,327	4	6
Advertising	101	4	4
Sundry Debtors	4,744	2	9
Bill Receivable	48	4	4
Bad Debts Reserve	306	1	9
Purchases Returns	822	1	1
Sales Returns	716	5	5
Sundry Creditors	7,058	14	8
Cash at Bank	31	1	9
Cash in hand	4	17	6
Manufacturing Wages	6,281	1	2
Discounts received	187	7	7
Discounts allowed	322	1	7
Manufacturing Expenses	879	2	6
Royalties	18	2	6
Rent, Rates, Taxes and Insurance	399	1	9
Travelling Expenses	114	4	2
Printing and Stationery	186	2	9
Coal, Gas and Water	204	3	6
Repairs and Renewals	11	1	4
Bad Debts	295	1	11
Salaries	620	0	0
Partners' Drawings :—			
Baker	256	0	0
Cooper	92	0	0

Prepare Trading and Profit and Loss Account for the *six months* ended June 30, 1928, and a Balance Sheet as on that date, taking the following matters into consideration :

1. Closing stock amounts to £7,208 7*s.* 6*d.*
2. £70 charged in Wages Account is to be transferred to Repairs Account.
3. A reserve is to be made for £62 owing for rent.
4. Depreciation is to be written off Plant and Machinery at the rate of 5 per cent. per annum and off Motor Lorries at the rate of 10 per cent. per annum.
5. A reserve for bad debts is to be carried forward equal to 5 per cent. on the sundry debtors.
6. £50 of the charge for advertising is to be carried forward to the next half-year.
7. There is a stock of catalogues on hand on June 30, 1928, valued at £100. [45 marks.]

2. Define : Statement of affairs, interim dividend, calls in arrear, limited partnership, joint venture. [15 marks.]

Part II.

(One exercise and one question should be answered from this section.)

3. Exercise.

The "Lowlands" Lawn Tennis Club issued the following account for the year ended December 31, 1928.

Balance Sheet

for the year ended December 31, 1928.

Dr.	£	s.	d.	*Cr.*	£	s.	d.
To Balance in current account at bank, 1/1/28	19	17	6	By Ground Expenses	39	14	2
„ Subscriptions received:—				„ Wages	92	6	4
1927 arrears	6	6	0	„ Rent:—			
1928	219	9	0	1927 arrears	5	0	0
1929 in advance	10	10	0	1928 in full	30	0	0
„ Locker Rents	16	4	0	„ Tennis Balls	61	14	6
„ Visitors' Fees	18	13	6	„ New Motor-mower	42	0	0
„ Sales Refreshments	39	9	4	„ Repairs	14	8	9
„ Lost Balls Fines		11	6	„ Tournament Prizes	21	9	6
„ Special donation from the President, Geo. Makepeace, Esq., for the specific purpose of establishing a fund for the construction of hard courts	105	0	0	„ Ditto not yet paid	1	14	6
„ Members' subscriptions to hard courts fund	13	17	9	„ Purchases of Refreshments	26	18	1
„ Entrance Fees	27	6	0	„ Paid into Deposit Account	38	0	0
„ Interest on Deposit Account at Bank		13	2	„ Printing, Postages and Stationery	14	1	2
„ Withdrawn from Deposit Account	25	0	0	„ Rates, Taxes and Insurance	21	4	9
„ Sundry Receipts	2	19	9	„ Donations	12	12	0
„ Received for sale of old mower	2	10	0	„ Piano hire-purchase instalments	26	0	0
„ Tournament Fees	27	13	6	„ Cash in hands of Treasurer, 31/12/28	3	10	9
„ Ditto not yet paid in	3	4	6	„ Balance in Current Account, 31/12/28	88	11	0
	£539	5	6		£539	5	6
To Balance b/d	92	1	9				

Divide and redraft this account, as may be necessary, to present a proper statement of the season's working, and draw

up a Balance Sheet proper. The following further information is supplied :—

1. £2 of the amount received for Locker Rents applies to 1927, and there is £2 5*s*. owing for 1928.
2. The stock of refreshments on hand at January 1, 1928, was £16 and at December 31, 1928, £4.
3 There is a separate balance of cash in the Deposit Account at the Bank on December 31, 1928, of £26.
4. £2 is owing for groundsman's wages.
5. The Treasurer reports that his cash balance is actually only £2 0*s*. 9*d*.
6. The charge for repairs includes £8 for a gas stove (Furniture and Fittings Account) for the pavilion.
7. One-half of the piano instalments is considered to be an interest charge.
8. The assets of the club at January 1, 1928, were valued at :—

   Tennis Courts £484, depreciate at 5 per cent.
   Club Equipment £129 (including lawn mower at £4, this was sold during 1928), depreciate at 10 per cent., including new mower.
   Furniture and Fixtures £98, depreciate at 5 per cent. including gas stove.
   Pavilion £220, depreciate at 5 per cent.
   Piano £36, depreciate by £10.

9. There is due to the President the sum of £500 by way of a loan not bearing interest. [25 marks.]

4. Exercise.

The Extruded Metals Company, Ltd., having a Nominal Capital of £50,000, consisting of 100,000 ordinary shares of 10*s*. each, had a head office in Birmingham and branches at Coventry and Walsall.

The following Trial Balances were extracted from the books on December 31, 1928 :—

Head Office.

	£	*s*.	*d*.	£	*s*.	*d*
Share Capital 60,000 ord. shares .				30,000	0	0
Land and Buildings . . .	5,675	8	0			
Plant and Machinery . .	1,942	4	4			
Furniture and Fixtures . .	4,328	9	9			
Profit and Loss Account . .				3,609	10	8
Sundry Creditors . . .				8,422	14	1
Stock on hand, 1/1/28 . .	9,318	4	6			
Sundry Debtors . . .	11,091	3	9			
Cash at Bank	1,112	4	7			
Motor Lorries	827	6	4			
Walsall Branch—Current Account	5,296	9	4			
Coventry Branch—Current Account	2,440	14	2			
	£42,032	4	9	£42,032	4	9

WALSALL BRANCH.

	£	s.	d.	£	s.	d.
Freehold Premises	2,200	0	0			
Furniture, etc.	1,681	2	2			
Sundry Creditors				894	14	6
Sundry Debtors	1,107	13	2			
Overdraft at Bank				71	4	7
Bill Receivable	75	0	0			
Stock	1,824	3	6			
Profit and Loss Account				682	1	8
Coventry Current Account				163	8	9
Head Office Account				5,076	9	4
	£6,887	18	10	£6,887	18	10

COVENTRY BRANCH.

	£	s.	d.	£	s.	d
Freehold Premises	644	13	6			
Furniture, etc.	339	18	2			
Sundry Debtors	811	4	5			
Cash at Bank	11	14	2			
Sundry Creditors				784	17	2
Stock	1,320	5	4			
Profit and Loss Account				225	14	11
Walsall Current Account	244	3	2			
Head Office Account				2,361	6	8
	£3,371	18	9	£3,371	18	9

The Head Office had sent cash £220 to the Walsall Branch on December 31, 1928, not received at Walsall until January 2, 1929, and the Coventry Branch had remitted a cheque to Head Office for £79 7*s*. 6*d*. on December 31, 1928, not received at Head Office until January 1, 1929. There were goods in transit at cost price from Coventry to Walsall at the close of the year amounting to £80 14*s*. 5*d*.

Prepare a combined Balance Sheet for the whole undertaking as on December 31, 1928. [25 marks.]

5. Explain the meaning and give examples of: Fixed assets, floating assets, wasting assets, fictitious assets. [15 marks.]

6. On what basis would you allocate the following items of expenditure to cost records: (*a*) Materials; (*b*) Wages; (*c*) Carriage? [15 marks.]

UNION OF EDUCATIONAL INSTITUTIONS.

BOOK-KEEPING: S 1, July 1929.

[3 hours allowed.]

Details are to be shown in Sales, Purchases and Returns Books, and folios inserted in folio columns.

Section A.—Compulsory.

1. John Hall is in business as a wholesale stationer. The following balances appeared in his books on November 30, 1928: Cash in hand, £25 7*s*. 6*d*.; Cash at Bank, £301 15*s*.; Stock,

£310; Furniture and Fittings, £150 10*s*. Sundry Debtors: A. Watson, £27 6*s*. 8*d*.; J. Green, £42 5*s*. 4*d*.; H. Wood, £18 15*s*. 6*d*. Sundry Creditors: S. Moss, £23 4*s*. 6*d*.; R. Wilson, £52 15*s*. 6*d*. Capital, £800.

Enter the above balances in the Journal and post them to the Cash Book and appropriate Ledger Accounts. Record the following transactions in the subsidiary books and post them to the Ledger. Balance the accounts and extract a Trial Balance. (Five Accounts on each page of Ledger Paper.)

N.B.—Trading Account, Profit and Loss Account, and Balance Sheet are *not* required.

1928.
Dec. 1. Withdrew £15 from the Bank for private purposes.
" 2. Sold, on credit, to Wyndham & Co., 6 doz. Note-books at 2*s*. 9*d*. per doz.; 5 doz. leather satchels at 7*s*. 6*d*. each. The whole transaction subject to 5 per cent. trade discount.
" 4. Purchased, by cheque, new show-case £10 10*s*.
" 5. Received from A. Watson, cheque, in settlement of his account; discount allowed, £1 6*s*. 8*d*.
" 7. Forwarded cheque for £20, on account, to R. Wilson.
" 8. Sundry cash sales, £14.
" 9. Paid, in cash, for painting and repairs, £3 6*s*. 8*d*.
" 11. Sold to J. Green, on credit: 8 doz. fountain pens at 15*s*. per doz.; 3 doz. ink-stands at 5*s*. each.
" 12. Wrote off H. Wood's account as a bad debt.
" 13. Paid, in cash, wages £7 10*s*.
" 14. Sent Credit Note for 15*s*. to J. Green for 1 doz. ink-stands, defective.
" 15. Lent, by cheque, £25 to J. Walton.
" 16. Drew £10 from Bank for office cash.
" 17. Sundry cash sales, £21 10*s*. 6*d*.
" 18. Paid for advertising, in cash, £8 8*s*.
" 20. Received, on account, from Wyndham & Co. cheque for £12.
" 22. Bought, on credit, from the Excelda Manufacturing Co.: 1 gross pencil-cases at 9*d*. each.
" 24. Returned to the Excelda Manufacturing Co. 2 doz. pencil-cases, purchased on the 22nd inst., as damaged.
" 27. J. Walton sent cheque for £10 in part repayment of loan.
" 28. Paid wages in cash £8 10*s*.

2. From the following Trial Balance prepare a Trading Account, Profit and Loss Account, and a Balance Sheet, as on December 31, 1928.

TRIAL BALANCE OF H. R. JOHNSON.

	Dr.	*Cr.*
	£	£
Cash in hand	19	
Cash at Bank	193	
Sundry Debtors	1,236	
Sundry Creditors		190
Carried forward	1,448	190

	Dr. £	Cr. £
Brought forward	1,448	190
Purchases	900	
Sales		2,561
Returns Inwards	47	32
Returns Outwards		
Discount	79	
Rent	90	
Plant and Machinery	420	
Furniture and Fittings	350	
Stock (Jan. 1, 1928)	763	
Insurance	55	
Commission		126
Bad Debts	72	
Carriage	48	
Wages (manufacturing)	385	
Capital (H. R. Johnson)		1,748
	£4,657	£4,657

Depreciation: To be written off Plant and Machinery, 10 per cent.; Furniture and Fittings, 7½ per cent. Stock on hand, December 31, 1928, valued at £800. [20 marks.]

Section B.

(Answer two of the following questions.)

3. What is the "Imprest" system of keeping Petty Cash? Give a suitable ruling for a Petty Cash Book with appropriate headings. [10 marks.]

4. Explain the term "Capital." How would you ascertain the Capital of a firm? [10 marks.]

5. What are "assets"? Distinguish between Fixed, Floating, Wasting, and Fictitious assets. Give one example of each. [10 marks.]

UNION OF EDUCATIONAL INSTITUTIONS.

BOOK-KEEPING: S 2, July 1929.

[3 hours allowed.]

Section A.

(Both questions in this section should be attempted.)

1. A. Jenks and B. Lean are partners sharing profits and bearing losses in the ratio of 3 to 2. The following Trial Balance is extracted from their books as at May 31, 1929:—

	£	£
Office Salaries	1,120	
Discounts	631	403
Bad Debts Reserve, June 1, 1928		184
A. Jenks, Capital Account		9,068
B. Lean, " "		6,972
Carried forward	1,751	16,627

	£	£
Brought forward	1,751	16,627
Purchases	8,774	
Bills Payable		1,498
Cash	62	
Sundry Debtors and Creditors	4,830	2,996
Plant and Machinery	4,486	
Bad Debts	184	
Stock, June 1, 1928	6,325	
Carriage on Sales	332	
Carriage on Purchases	86	
Factory Wages	2,832	
Rent, Rates, etc.	843	
Sales		17,532
Sundry Expenses	551	
Returns Inwards and Outwards	3,824	1,169
Furniture and Fittings	230	
A. Jenks, Drawings Account	610	
B. Lean, " "	480	
Bills Receivable	2,202	
Bank	1,420	
	£39,822	£39,822

The Stock on May 31, 1929, was valued at £8,826.

You are required to prepare Trading and Profit and Loss Accounts and Balance Sheet, after making the following adjustments: (*a*) Bad Debts Reserve to be 5 per cent. of Book Debts (including Bills Receivable); (*b*) 5 per cent. to be written off Furniture and Fittings; (*c*) 10 per cent. to be written off Plant and Machinery; (*d*) 5 per cent. Interest on Capital to be credited to the partners. (Journal entries are not required.) [50 marks.]

2. On February 1, 1929, D. Fisher & Co., of London, consigned to C. Armstrong, of Lagos, goods which cost £1,400. On the same date they paid, in respect of this consignment, £62 for freight and £16 for insurance. On June 15 they received from Armstrong an Account Sales showing that he had sold the goods for £1,820 and that he had incurred expenses amounting to £132. The selling commission was 5 per cent. on the gross proceeds. A sight draft on London for the balance of Armstrong's indebtedness reached the consignors on June 23.

Record the above transactions in D. Fisher & Co.'s Cash Book, Journal and Ledger. [30 marks.]

Section B.

(*Only two questions in this section should be attempted.*)

3. State fully how a Trial Balance differs from a Balance Sheet. [10 marks.]

4. Describe the Imprest System of dealing with Petty Cash. [10 marks.]

5. The business of R. Sutton & Co. consists of three departments, viz.: "Carpets," "Pads," and "Furnishings." Draw up a suitable Departmental Sales Book and explain how it should be used. [10 marks.]

6. (*a*) Why do some firms keep Bill Books instead of recording their Bill transactions in the ordinary Journal?
(*b*) What entries would you make when a Bill Receivable is:
(1) Dishonoured after having been discounted at the Bank?
(2) Renewed (with interest) after having thus been dishonoured? [10 marks.]

UNION OF EDUCATIONAL INSTITUTIONS.

Book-Keeping: S 1, May 1930.

[3 hours allowed.]

(*Details are to be shown in Sales, Purchases and Returns Books.*)

Section A.—Compulsory.

1. James Hill is in business as a Wireless Dealer. The following balances appeared in his books on May 31, 1929: Cash in hand, £10 10*s.* 6*d.*; Cash at Bank, £125 8*s.* 3*d.*; Stock, £278 12*s.* 9*d.*; Furniture and Fittings, £56. Sundry Debtors: T. Mountain, £35 10*s.*; H. Valley, £14 8*s.* 6*d.* Sundry Creditors: R. Dale, £40 3*s.* 4*d.*; W. Tree, £30 6*s.* 8*d.* Capital, £450.

Enter the above balances in the Journal and post them to the Cash Book and appropriate Ledger Accounts. Record the following transactions in the subsidiary books and post them to the Ledger. Balance the accounts and extract a Trial Balance as on June 30, 1929. (Five Accounts on each page of Ledger Paper.)

N.B.—Trading Account, Profit and Loss Account, and Balance Sheet are *not* required.

1929.
June 1. Drew £20 from Bank for Office Cash.
„ 3. Bought, on credit, from R. Dale: 3 doz. valves at 9*s.* 6*d.* each; 2 doz. loud speakers at 25*s.* each. The whole transaction subject to 10 per cent. trade discount.
„ 4. Paid, in cash, £2 7*s.* 6*d.* for repairs to shop.
„ 5. Lent H. Friend £5 in cash.
„ 6. Forwarded cheque £10, on account, to W. Tree.
„ 7. Paid Rent by cheque, £3 3*s.*
„ 10. Settled R. Dale's account to date, being allowed 5 per cent. discount.
„ 13. Sold, on credit, to F. Thorpe: 8 doz. coils copper wire, at 18*s.* 6*d.* per doz.
„ 14. Drew cheque for £15 and paid, in cash, Wages, £13 10*s.* 6*d.*
„ 15. F. Thorpe returned half-doz. coils, purchased on 13th, as defective.
„ 17. Cash Sales to date, £32 8*s.* 10*d.*
„ 18. Sold, on credit, to R. Dale: 2½ doz. "Superb" head-phones at 17*s.* 6*d.* each; 25 H.T. batteries at £4 4*s.* per doz.
„ 20. Bought for cash new counter for shop, £5 6*s.* 8*d.*
„ 21. Sundry cash purchases, £1 12*s.* 6*d.*

June 22. Received cheque for £20 from R. Dale and endorsed same in favour of W. Tree in full settlement of his account.
„ 24. H. Valley forwarded cheque for £14, being allowed discount, 8*s*. 6*d*.
„ 25. Paid for trade expenses, in cash, £1 8*s*. 9*d*.
„ 27. Received from H. Friend cheque for £3 10*s*., in part repayment of loan.
„ 28. Withdrew £20, in cash, for private purposes.

[60 marks.]

2. From the following Trial Balance prepare a Trading Account, Profit and Loss Account, and a Balance Sheet, as on December 31, 1929.

TRIAL BALANCE OF C. J. DAWSON.

	Dr. £	*Cr.* £
Cash in hand	27	
Cash at Bank	231	
Stock (January 1, 1929)	473	
Sundry Debtors	346	
Sundry Creditors		283
Plant and Machinery	450	
Furniture and Fittings	225	
Bad Debts	53	
Insurance	34	
Commission		65
Discount (balance)		46
Purchases	1,480	
Sales		2,610
Returns Inwards	23	
Returns Outwards		31
Carriage	48	
Wages	139	
Trade Expenses	41	
Drawings	75	
Rent and Rates	90	
Capital (C. J. Dawson)		700
	£3,735	£3,735

Depreciation: To be written off Plant and Machinery, 7½ per cent.; Furniture and Fittings, 5 per cent. Stock on hand, December 31, 1929, valued at £433. [20 marks.]

Section B.

(Answer two of the following questions.)

3. Rule a form of Sales Book suitable for John Smith, a merchant, who deals in silks, velvets and cotton goods, and make three specimen entries therein. [10 marks.]

4. What is a Credit Note? Under what circumstances might you send one to a customer and what entries would have to be made in your books? [10 marks.]

5. Explain clearly the chief differences between a Trial Balance and a Balance Sheet. [10 marks.]

UNION OF EDUCATIONAL INSTITUTIONS.

BOOK-KEEPING : S 2, May 1930.

[3 hours allowed.]

Section A.

(*Both questions in this section should be attempted.*)

1. The following balances appear in the books of C. Smith and B. Marshall as at March 31, 1930 :—

	£
C. Smith, Capital Account (Fixed) .	6,000
„ Current Account (Cr. balance)	100
„ Drawings Account . .	500
B. Marshall, Capital Account (Fixed) .	4,000
„ Current Account (Dr. balance)	20
„ Drawings Account . .	400
Cash in hand	30
Cash at Bank	3,240
Purchases, less Returns . . .	32,168
Sales, less Returns	38,730
Sundry Debtors	10,500
Sundry Creditors	8,495
Discounts Account (balance) . .	84
Stock, April 1, 1929	6,032
Rent, Rates and Taxes . . .	630
Salaries	2,054
Furniture and Fittings . . .	860
Sundry Expenses	364
Heating and Lighting . . .	87
Carriage Outwards	344
Bad Debts	180

The Stock at March 31, 1930, was valued at £7,804.

Furniture and Fittings are to be written down by 5 per cent., and a Bad Debts Reserve of 4 per cent. on Book Debts is to be created.

The Partners share profits and losses three-quarters and one-quarter respectively, after providing for Interest on Capital at the rate of 5 per cent. per annum.

You are required to prepare Trial Balance, Trading and Profit and Loss Accounts, and Balance Sheet. (Journal entries are not required.) [60 marks.]

2. Rectify, by means of Journal entries, the following errors in the books of C. Bright & Sons :—

(*a*) A Cash Sale for £10 to E. Jones was duly entered in the Cash Book, from which it was credited to E. Jones's Account.

(*b*) A Bill Receivable for £80, received from D. Rowney, was discounted for £73, the latter amount being credited to D. Rowney's Account.

(*c*) A filing cabinet, for use in the office, was bought for £12, which amount was debited to Purchases Account.

(*d*) A mahogany desk, for use in C. Bright's private residence, was bought for £38, which amount was debited to Purchases Account.

(Suitable narrations must be shown.) [20 marks.]

Section B.

(Only two questions in this section should be attempted.

3. On January 1, 1927, a trader bought a Motor Van for £363, paying cash for it. At the end of each year he wrote off depreciation at the rate of 33⅓ per cent. on the *diminishing balance*. The van was sold to C. Brown for £140, on November 10, 1929. Show the "Motor Van Account" in detail, including the disposal of its balance. [10 marks.]

4. In connection with Bills of Exchange, explain and illustrate: (*a*) a blank endorsement; (*b*) a special endorsement; (*c*) a restrictive endorsement. [10 marks.]

5. Explain the following terms: (*a*) Cash Discount; (*b*) Trade Discount; (*c*) Banker's Discount. [10 marks.]

6. What are: (*a*) an Account Current; (*b*) an Account Sales? Give a specimen of the latter. [10 marks.]

UNION OF EDUCATIONAL INSTITUTIONS.

Book-Keeping: S 3, May 1930.

[3 hours allowed.]

Part I.—Compulsory.

1. State briefly three provisions in the Companies Act, 1929, affecting the preparation of the final accounts of limited companies. [10 marks.]

2. Which of the expenses enumerated below would be allowed as deductions in computing profits assessable to income tax?

Rent.
Income Tax (British).
Depreciation.
Partners' Salaries.
Directors' Salaries.
Interest.
Repairs.
Bad Debts.
Fire Insurance.
Loss of Profits Insurance.
Charitable Donations.
Patent Fees. [10 marks.]

3. Woodcraft, Ltd., was registered to take over the business of Joseph Andrews at December 31, 1929, whose Balance Sheet at that date was as follows:—

Liabilities.	£	*Assets.*	£
Capital . . .	14,917	Goodwill, Patents, etc.	3,330
Creditors . . .	3,276	Plant	3,311
		Furniture, etc.	1,809
		Stock .	5,491
		Debtors .	4,107
		Cash at Bank	145
	£18,193		£18,193

The purchase price was fixed at £13,500, payable as to £5,000 in cash, and £5,000 in fully paid ordinary shares, and the balance in 7½ per cent. debentures of £100 each.

The Company took over all the assets and liabilities with the exception of the cash, debtors, and creditors, and agreed to collect the debtors for the vendor and remit him the proceeds, less 2½ per cent. collecting commission.

The shares and debentures were allotted on January 1, 1930, on which date 20,000 ordinary shares of 10*s.* each were offered to the public, payable as to 5*s.* per share on application and 5*s.* per share on allotment.

Applications were received for 19,600 shares by January 16, 1930, and these were duly allotted and the allotment moneys received by January 30, 1930, on whch date the balance of the purchase money was paid over to the vendor. On January 31, 1930, the vendor's debtors had all been collected and the amount due to the vendor was paid over. The formation expenses of the Company, £642, were also paid on that date.

Open the books of Woodcraft, Ltd., record the above transactions in Cash Book and Ledger Accounts, and prepare a Balance Sheet as at January 31, 1930.

Journal entries are not required, but all accounts should be presented. [45 marks.]

Part II.

(*One exercise and one question should be answered from this section.*)

4. Exercise.

The following Total Account was prepared for a Sales Ledger for the purpose of self-balancing.

Sales Ledger Total Account.

Dr.	£		*Cr.* £
To Debtors, Jan. 1	1,768	By Cash	3,213
„ Sales	3,409	„ Discount	83
„ Transfers	78	„ Returns	108
„ Creditors, Dec. 31	27	„ Bills Receivable	62
		„ Debtors, Dec. 31	1,793
	£5,282		£5,259

To Debtors, Dec. 31, £1,793.

Explain in detail what steps should be taken to rectify this account. [25 marks.]

5. Exercise.

George Weaver drew an accommodation bill on Curtis Yorke for £250, and accepted Yorke's draft for the like sum. The bills were dated January 28, 1930, and were drawn payable at three months thereafter.

Both Weaver and Yorke discounted their bills at 6 per cent. per annum.

At the due date, Yorke honoured his acceptance but Weaver failed to meet his bill and the Bank charged Yorke 7*s.* 6*d.* expenses. Weaver then sent Yorke a cheque for half the amount due and a bill at four months dated May 2, for the balance, plus

interest at 6 per cent. per annum from May 2. This bill was met at the due date.

Show how these transactions would be recorded in the accounts of George Weaver, calculating the discount and interest in days. [25 marks.]

6. Define: Sinking fund, working capital, bonus shares, preferential creditors, fixed charge. [10 marks.]

7. Distinguish between a general reserve, a specific reserve and a secret reserve. [10 marks.]

UNION OF EDUCATIONAL INSTITUTIONS.

Book-Keeping: S 1, April 1931.

[3 hours allowed.]

(Details are to be shown in Sales, Purchases and Returns Books.)

Section A.—Compulsory.

1. Henry Railton is in business as a Wholesale Stationer. The following balances appeared in his books on November 30, 1930: Plant and Machinery, £250 10*s.*; Furniture and Fittings, £110; Stock, £317 10*s.* 6*d.* Sundry Debtors: T. Barker, £23 6*s.* 8*d.*; H. Whitman, £44 3*s.* 4*d.* Sundry Creditors: C. Rayner, £50 14*s.* 9*d.*; J. Nall, £32 5*s.* 3*d.* Cash at Bank, £123 8*s.* 7*d.* Cash in hand, £14 0*s.* 11*d.* Capital, £800.

Enter the above balances in the Journal and post them to the Cash Book and appropriate Ledger Accounts. Record the following transactions in the subsidiary books and post them to the Ledger. Balance the accounts and extract a Trial Balance as on December 31, 1930. Cheques received are paid into Bank same day unless otherwise stated.

(Five Accounts on each page of Ledger Paper.)

N.B.—Trading Account, Profit and Loss Account, and Balance Sheet are *not* required.

1930.

Dec. 2. Sold, on credit, to H. Whitman: 5 gross envelopes at 7½*d.* per dozen; 8 dozen writing pads at 9*d.* each, The whole transaction subject to 15 per cent. trade discount.

" 3. Sent cheque in full settlement of C. Rayner's account.

" 4. Paid cash for repairs, £4 16*s.* 3*d.*

" 6. Purchased by cash, for office use, new duplicator. £7 10*s.*

" 8. Drew £20 from Bank for Office cash.

" 9. Paid Wages in cash, £15 15*s.*

" 10. Withdrew for private purposes by cheque, £10.

" 11. Purchased, on credit, from J. H. Smith: 6 dozen school bags at 3*s.* 6*d.* each. Subject to 5 per cent. trade discount.

" 14. Cash Sales to date, £17 5*s.* 4*d.*

" 15. Purchased from J. Nall, on credit: 2 dozen ink-stands at 7*s.* 6*d.* each.

" 17. Returned to J. Nall, 2 ink-stands, purchased on 15th inst., as damaged.

" 18. Paid rent by cheque, £8 8*s.*

1930.
Dec. 20. Forwarded cheque for £12, on account, to J. Nall.
„ 21. Paid trade expenses in cash, £3 2*s*. 6*d*.
„ 24. Received from H. Whitman cheque in settlement of his account to date, less 5 per cent. discount.
„ 27. Sundry Cash Sales, £15 8*s*. 7*d*.
„ 28. T. Barker having become bankrupt, a first and final dividend of 6*s*. 8*d*. in the £ was paid into the Bank.
„ 29. Received in cash rent for warehouse sub-let, £1 5*s*.
„ 30. Sundry Cash Purchases, £4 9*s*. 6*d*. [60 marks.]

2. From the following Trial Balance prepare a Trading Account, Profit and Loss Account, and a Balance Sheet, as on December 31, 1930.

TRIAL BALANCE OF D. GERRARD.

	Dr. £	*Cr.* £
Stock (January 1, 1930)	452	
Plant and Machinery	560	
Furniture and Fittings	280	
Sundry Debtors	295	
Sundry Creditors		442
Drawings	50	
Purchases	1,675	
Sales		2,587
Returns Outwards		35
Returns Inwards	73	
Manufacturing Wages	381	
Carriage Outwards	27	
Discount (balance)		58
Bad Debts	89	
Insurance	54	
Trade Expenses	13	
Rates and Taxes	107	
Commission	36	
Cash at Bank	196	
Cash in hand	34	
Capital (D. Gerrard)		1,200
	£4,322	£4,322

10 per cent. depreciation to be written off Plant and Machinery, $7\frac{1}{2}$ per cent. depreciation to be written off Furniture and Fittings. Stock on hand, December 31, 1930, valued at £432. [20 marks.]

Section B.

(*Answer two of the following questions.*)

3. State the chief benefits which a trader can secure by opening an account with a Banker. [10 marks.]

4. Explain briefly the following terms: Current Account, Narration, Invoice, Statement of Account, Imprest System. [10 marks.]

5. Set out clearly the differences between Trade Discount and Cash Discount. What entries must be made in the books to record each? Is it possible for a trader to secure both classes of discount in connection with one transaction? [10 marks.]

UNION OF EDUCATIONAL INSTITUTIONS.

Book-Keeping: S 2, April 1931.

[3 hours allowed.]

Section A.

(*Both questions in this section should be attempted.*)

1. D. Sinclair and B. Clark are partners sharing profits and losses three-fifths and two-fifths respectively.

On March 31, 1931, the balances in their books were as follows:—

	£
Sinclair, Capital Account	6,883
,, Drawings Account	1,800
Clark, Capital Account (Dr. balance)	230
,, Drawings Account	1,200
Plant and Machinery	2,600
Furniture and Fixtures	180
Stock, April 1, 1930	3,742
Creditors . .	3,814
Debtors . . .	5,019
Bills Receivable .	171
Cash in hand . .	122
Cash at Bank . .	977
Bad Debts Reserve .	85
Rent and Rates .	230
Purchases, less Returns	5,043
Insurance . .	34
Manufacturing Wages	3,900
Carriage Inwards	168
Discounts Allowed .	387
,, Received .	82
Salaries . . .	720
Sundry Manufacturing Expenses	870
Sundry Expenses (other than Manufacturing)	116
Sales, less Returns	16,645

Draw up a Trial Balance as at March 31, 1931; then prepare Trading and Profit and Loss Accounts and Balance Sheet, noting that:—

(*a*) Stock at balancing date was valued £3,084.
(*b*) On March 30, 1931, goods valued at £125 were returned by a customer and were taken into stock, but no record of this return was made in the books until April 1.
(*c*) Depreciation should be written off as follows: Furniture and Fixtures, 5 per cent.; Plant and Machinery, 7½ per cent.
(*d*) £72 of Book Debts should be written off as bad, and the Bad Debts Reserve raised to £100.

Journal entries are *not* required. [60 marks.]

2. R. Macdonald and Sons, of Liverpool, consigned to A. Kofi, of Accra, goods valued £2,800. They also paid £89 for freight

and other consignment expenses. They then drew on Kofi for £1,800 at 3 months date and discounted the bill with the Bank of British West Africa, the charge for discount amounting to £21.

In due course Kofi sent an Account Sales showing that the goods had been sold for £3,240, and that his expenses (including commission) amounted to £280. The Account Sales was accompanied by a sight draft for the balance due to the consignors.

You are required: (*a*) to make out the Account Sales; (*b*) to record all the above transactions in the books of R. Macdonald and Sons, by means of Journal entries, with suitable narrations. [20 marks.]

Section B.

(*Only two questions in this section should be attempted.*)

3. Write out a cheque in favour of J. Jackson and Co. in settlement of an account for goods which you bought for £60, less Trade Discounts of 20 per cent. and 10 per cent., and a Cash Discount of $3\frac{3}{4}$ per cent. Make the cheque as safe as you can and explain the effect of your precautions. Your calculations must be shown. [10 marks.]

4. Explain the following terms: (*a*) Opening entries; (*b*) Adjusting entries; (*c*) Closing entries. [10 marks.]

5. Many modern Cash Books are ruled with three columns on each side, headed respectively "Discount," "Details," and "Bank." State in what circumstances such a ruling is appropriate, and explain the use of the "Details" columns on each side. [10 marks.]

6. (*a*) State the difference between a Promissory Note and a Bill of Exchange.
   (*b*) Give a specimen of each in favour of C. Brown, for £900, payable on demand, and state the stamp duty in each case. [10 marks.]

UNION OF EDUCATIONAL INSTITUTIONS.

BOOK-KEEPING: S 3, April 1931.

[3 hours allowed.]

Part I.—Compulsory.

1. The Chromium Steel Company, Ltd., having a nominal capital of £50,000 divided into 30,000 Ordinary Shares of £1 each and 20,000 6 per cent. Preference Shares of £1 each, was formed to acquire the business of C. Barnby and Son as from January 1, 1929.

The purchase consideration was fixed at £20,000, for which tangible assets to the value of £15,000 were acquired.

On December 31, 1929, the purchase price had been discharged by the issue of £10,000 in fully paid Ordinary Shares, £5,000 in 7 per cent. Debentures of £100 each, and the balance in cash. 7,500 Ordinary Shares had been taken up by the public and fully subscribed, with the exception of £62 10*s*. calls in arrear, and 10,000 Preference Shares had been issued and fully subscribed.

The following balances stood in the books of the Company on December 31, 1929, in addition to those indicated by the above transactions :—

		s.	d.
Plant and Machinery	6,150	0	0
Salaries	1,938	0	0
Directors' Fees	1,000	0	0
Investments	3,010	0	0
Fixtures and Fittings	250	0	0
Carriage Inwards	397	0	0
Fuel, Light, and Heating (Factory)	382	0	0
Freehold Factory	3,946	0	0
Wages	15,473	0	0
Manufacturing Expenses	964	10	0
Stock at January 1, 1929	21,421	0	0
Rates and Insurance	968	0	0
Purchases	54,930	10	0
Sales	78,226	10	0
Returns Inwards	471	0	0
Returns Outwards	521	0	0
Discount Account (Cr.)	214	0	0
Bank Loan	2,412	0	0
Cash in hand	4,294	0	0
Creditors	20,353	0	0
Debtors	14,480	0	0
Office Expenses	647	0	0
Repairs to Buildings	686	0	0
Transfer Fees	6	0	0
Apprentices' Premiums (P. and L. Account)	250	0	0
Bad Debts	231	0	0
Reserve for Bad and Doubtful Debts	400	0	0
Interest and Bank Charges (Dr.)	98	0	0
Solicitors' Fees	125	0	0
Bills Payable	5,142	0	0
Motor Lorries	2,200	0	0
Loose Tools	900	0	0

Prepare Trading and Profit and Loss Accounts for the year ended December 31, 1929, and a Balance Sheet at that date.

Make provision for the following :—

(1) Motor Lorries were re-valued at £1,760 and Loose Tools at £960.
(2) Depreciation—Plant and Machinery 7½ per cent., Fixtures and Fittings 5 per cent.
(3) Unexpired Rates and Insurance, £119.
(4) Reserve for Bad Debts to be made up to 5 per cent. on the Debtors.
(5) Debentures interest due (12 months).
(6) Closing Stock, £14,419. [50 marks.]

2. Draft a suitable form of ruling for a Share Ledger making *pro forma* entries therein. [10 marks.]

3. Distinguish between a Receipts and Payments Account and an Income and Expenditure Account. [10 marks.]

Part II.

(*One exercise and one question should be answered from this section.*)

4. EXERCISE.

Robert Carter files his petition in Bankruptcy on December 31, 1930. You are required to prepare his Statement of Affairs and Deficiency Account.

He supplies the following information :—

	£
Stock-in-Trade (cost £5,000), estimated to realize .	3,000
Book Debts :	
Good	2,000
Doubtful £4,000, estimated to produce . . .	1,500
Bad	5,500
Creditors :	
Unsecured	13,700
Partly secured by lien on Stock	4,600
Fully secured by mortgage on premises . . .	7,200
Shares in Explorations, Ltd. (estimated to produce £10)	5,000
Freehold Premises	8,000
Office Furniture (estimated to produce £75) . .	330
Plant, Machinery, and Tools (estimated to produce £250)	1,250
Cash at Bank	25
Rates and Wages owing (£400 preferential) . .	450

His capital at December 31, 1925, was £9,600. Trading results since were as follows :—

1926 profit	£7,240
1927 ,, ...	4,680
1928 ,, ...	2,575
1929 loss	870
1930 estimated loss . . .	2,000

His drawings during this period amounted to £10,000, personal expenses to £2,900, and household and other debts £170.

[20 marks.]

5. EXERCISE.

The British Coal Company, Ltd., acquired a lease of a colliery from January 1, 1924, upon the following terms : Minimum yearly rent £1,000; Royalty, 6*d*. per ton, with power to recoup short workings during the first five years of the lease.

Output.

1924	15,000 tons.
1925	30,000 ,,
1926	42,500 ,,
1927	45,000 ,,
1928	50,000 ,,
1929	95,000 ,,

Show all the relative accounts in the books of the Company. Ignore Income Tax. [20 marks.]

6. What books is a limited company bound by law to keep? State four other books usually found desirable. [10 marks.]

7. Define: Bankruptcy, *del credere* commission, *pari passu*, floating charge, cumulative preference shares. [10 marks.]

COUNTY COUNCIL OF THE W.R. OF YORKSHIRE.

FIRST YEAR SENIOR BOOK-KEEPING, April 1929.

(*You may attempt all the questions.*)

1. From the following Trial Balance taken from the books of John Jacobs, you are required to prepare a Trading Account, Profit and Loss Account, and a Balance Sheet for the year ending January 31, 1929 :—

TRIAL BALANCE, *January* 31, 1929.

	£	s.	d.	£	s.	d.
Cash at Bank, Current Account	30	10	6			
" " Deposit Account	750	0	0			
Salaries	200	0	0			
Purchases	2,290	16	2			
Wages	195	11	8			
Sales				2,530	12	1
Sundry Debtors	763	7	0			
Bank Interest				6	0	0
Purchases Returns				13	14	0
Stock, February 1, 1928	216	9	9			
J. Jacobs, Capital Account				1,640	10	6
Office Expenses	160	1	6			
Sundry Creditors				634	10	0
J. Jacobs, Drawing Account	218	10	0			
	£4,825	6	7	£4,825	6	7

Stock, January 31, 1929, £872 12*s*. 6*d*. [25 marks.]

2. C. Watson is in business as a Stationer, etc. On January 1, 1929, the following balances were taken from his books :—

	£	s.	d.	£	s.	d.
Furniture and Fixtures				186	10	0
Stock				1,735	19	0
Sundry Debtors : C. Cresswell	38	16	6			
" " A. Denby	12	8	8			
Cash at Bank				88	18	10
Sundry Creditors : Hutchinson & Sons				252	10	3
Breffit & Co., Ltd.				40	2	9

Ascertain the Capital, then make the opening entry in the Journal and post to Ledger. The following transactions for the month of January are to be entered in the proper subsidiary books and posted to the Ledger.

Take out a Trial Balance as at January 31, 1929.

No Profit and Loss Account or Balance Sheet to be prepared.

1929.			£	s.	d.	£	s.	d.
Jan.	4.	Withdrew from Bank for office purposes				50	0	0
"	7.	Sold to C. Cresswell : 100 boxes of envelopes at 4*s*. 3*d*. per box ; 4 reams blotting-paper at 13*s*. 6*d*. per ream.						

1929.		£	*s.*	*d.*	£	*s.*	*d.*
Jan. 7.	Cash sales to date . .				136	6	2
„ 8.	Received cash from A. Denby	12	2	6			
	Discount allowed . .		6	2			
					12	8	8
„ 8.	Paid cash to Bank . .				140	0	0
„ 11.	Paid in cash, rates of premises				24	6	7
„ 13.	C. Watson withdrew cash .				10	0	0
„ 13.	Paid in cash, Wages . .				5	10	0
„ 16.	Bought from Hutchinson & Sons: 4 gross pens at 12*s.* per gross; 24 fancy blotters at 3*s.* 6*d.* each; 1 gross small bottles of ink at 4*s.* per dozen bottles.						
„ 18.	Paid Breffit & Co., Ltd., cheque	39	12	8			
	Discount received . .		10	1			
					40	2	9
„ 20.	Sold to A. Denby: 5,000 envelopes at 8*s.* 6*d.* per 1,000.						
„ 21.	Cash sales to date. . .				126	16	3
„ 21.	Paid cash to Bank . .				100	0	0
„ 23.	Hutchinson & Sons made an allowance of 9*d.* each on fancy blotters bought on 16th, on account of being slightly soiled.						
„ 26.	Bought for cash, new counter				20	0	0
„ 26.	Received from C. Cresswell, cheque (paid to Bank) .	37	17	2			
	Discount allowed . .		19	4			
					38	16	6
„ 31.	Paid in cash, Wages . .				7	10	0

[40 marks.]

3. Give a full list of the books required by a merchant who keeps his accounts on a proper double entry system. Describe the form and use of one of these books. [10 marks.]

4. What is meant by—(*a*) a nominal account, (*b*) a real account? Give *two* examples of each and state what the balance would represent in each case. [10 marks.]

5. Rule a page of a Petty Cash Book (imprest system), suitable for a firm who make many small payments for carriage, stationery, and postages and telegrams. Make some entries to illustrate the method of using the book and show how it is balanced. [15 marks.]

COUNTY COUNCIL OF THE W.R. OF YORKSHIRE.

Second Year Senior Book-Keeping, April 1929.

(You may attempt a total of five questions only, which number must include Questions 1 *and* 2.)

1. P. Longway and R. Driver were partners in a business; Longway was entitled to three-fourths of the profits, and Driver to one-fourth, after the latter had received a salary of £500 per

annum. From the Trial Balance given below and other information prepare a Trading Account, Profit and Loss Account, and Balance Sheet for the year ending December 31, 1928.

TRIAL BALANCE, *December* 31, 1928.

	Dr. £	*Cr.* £
Sundry Debtors	3,630	
Cash in hand	126	
Bank overdraft		1,637
Leasehold Property	2,700	
Fixtures and Fittings	550	
Stock, January 1, 1928	1,327	
Sales		8,962
Purchases	4,728	
Returns Outward		341
Wages	1,684	
Office Expenses, Rates, etc.	775	
Capital: P. Longway		3,000
„ R. Driver		1,000
Drawings: P. Longway	450	
„ R. Driver	630	
Discount Account, balance		164
Office Salaries	600	
Creditors		1,346
Bills payable		750
	£17,200	£17,200

Adjustments:

Driver's salary has not been paid.
Write £100 off leasehold property.
Wages owing December 31, 1928, £55.
Rates prepaid, December 31, 1928, £50.
Stock, December 31, 1928, £1,160. [30 marks.]

2. The following is the Balance Sheet of Roger Fry & Co. at February 1, 1929. Make the Journal entry necessary to open the books at that date, and post to Ledger.

Liabilities.	£	*Assets.*	£
Bills payable	3,558	Cash in hand	348
Creditor:		Cash at Bank	1,621
Lincoln & Son	2,552	Bills Receivable	1,000
R. Fry, Capital	9,750	Debtors:	
		Woodcock & Son	1,860
		Sandgate & Co.	737
		Stock: A Dept.	5,517
		B Dept.	1,027
		Furniture and Fixtures	750
		Business Premises	3,000
	£15,860		£15,860

Below are the transactions for February: enter these in the proper subsidiary books and post to Ledger; the transactions

relating to the two departments are to be kept separate. Take out a Trial Balance as at February 28, 1929.

1929.			£	£	s.	d.
Feb.	1.	Sold goods to Woodcock & Son, A Dept.		383	0	0
,,	2.	Received cheque from Sandgate & Co.	700			
		Discount	37			
				737	0	0
,,	4.	Paid to Bank		1,000	0	0
,,	5.	Sold goods to Sandgate & Co., A Dept.		149	0	0
		B Dept.		236	0	0
,,	6.	Bought goods from Lincoln & Son, A Dept.		883	0	0
		B Dept.		196	0	0
,,	11.	Bill payable due this day paid through Bank		2,000	0	0
,,	12.	Received three months' bill from Woodcock & Son		1,860	0	0
,,	16.	Sold on credit to W. Hedge, Fixtures not in use		57	0	0
,,	18.	Sold goods to Sandgate & Co., A Dept.		138	0	0
,,	20.	Paid Fire Insurance premium by cheque		36	0	0
,,	21.	Paid into Bank bill due this day		1,000	0	0
,,	22.	Paid cash sundry expenses		13	0	0
,,	23.	Bought goods from Lincoln & Son, B Dept.		486	0	0
,,	25.	Bill due 21st (Woodcock & Son) returned by Bank dishonoured, with expenses		1	2	6
,,	26.	Received cash from W. Hedge		57	0	0
,,	28.	Goods transferred during month from A Dept. to B Dept.		1,131	0	0

[35 marks.]

3. C and D are equal partners in a business, their capitals being £5,000 and £3,000 respectively. They agree to admit D as a partner to take one-third of the profits, on condition that he brings in £5,000 cash, all of which is to remain in the business, but only £3,000 to be treated as his Capital.

Make the entries in the Journal and Ledger of the firm to record the above. [15 marks.]

4. Define and explain the following terms in connection with Limited Companies: debenture, issued capital, cumulative preference share, limited liability, preliminary expenses.

[10 marks.]

5. Explain what is meant by capital expenditure. Give *two* examples of such expenditure and *two* examples of revenue expenditure from the accounts of a provision merchant.

[10 marks.]

6. For what reasons are reserves made for discounts and doubtful debts when final accounts are being prepared? On

December 31, 1928, a Company had outstanding book debts amounting to £7,800 and they decided to make a reserve of 5 per cent. for bad and doubtful debts and 2½ per cent. for discounts to be allowed. What would be the amount reserved for discount and how would it appear in the Balance Sheet of the Company on December 31, 1928? [10 marks.]

COUNTY COUNCIL OF THE W.R. OF YORKSHIRE.

First Year Advanced Accounting, April 1929.

(*You may attempt a total of four questions only.*)

1. The Radio Company, Ltd., was registered on January 1, 1928, with a Nominal Capital of £90,000 divided into 60,000 6 per cent. Preference Shares and 30,000 Ordinary Shares of £1 each. Seven signatories paid in full for one Ordinary Share each. 28,000 Preference Shares and 12,000 Ordinary Shares were offered for public subscription; on the former the full amount was called up and duly paid. 10*s*. per share was called up on the Ordinary Shares and all calls were paid, except by one holder of 400 shares who had failed to pay the last call of 2*s*. 6*d*. per share.

On March 1, 1928, the Directors purchased for cash the business of Ball & Co. for £15,000, taking over assets as follows:—

	£
Plant and Machinery .	8,000
Fixtures and Fittings	1,000
Stock . . .	4,000

In addition to the entries recording the share transactions and assets, the following particulars were taken from the books of the Company on December 31, 1928:—

	£
Preliminary expenses	600
Sundry Debtors . .	12,040
Freehold Premises . .	14,430
Rent paid . . .	1,000
Sales	92,000
Cash at Bank . . .	3,347
" " Deposit Account	8,000
Sundry Creditors . .	11,360
Bad Debts . . .	400
Salaries	3,000
Purchases .	39,000
General Expenses	500
Factory Wages	40,000

Write off the preliminary expenses; allow for £500 directors' fees unpaid; depreciate Plant and Machinery at the rate of 5 per cent. Stock, December 31, 1928, £13,000.

Prepare Trading Account, Profit and Loss Account, and Balance Sheet for the year ending December 31, 1928, after transferring £2,000 to General Reserve Account and providing for the preference dividend. [50 marks.]

2. The firm of Bristow and Bradshaw consisted of three partners, J. Bristow, W. Bradshaw, and T. Bradshaw, whose Capitals were £10,000, £5,000, and £5,000 respectively; and of the profit Bristow took one-half, W. Bradshaw one-third, and T. Bradshaw one-sixth. Bristow wished to retire, and it was agreed that C. Bradshaw should take his place. The following adjustments were to be made before Bristow retired: (*a*) £1,000 was to be written off Plant Account, and (*b*) a Goodwill Account was to be opened and credited with £4,000. C. Bradshaw agreed to bring £15,000 cash into the business, and Bristow was paid out in cash. In the Journal make all the entries relating to the above, then open accounts necessary to disclose the position after Bristow has retired. [20 marks.]

3. A Limited Company had a debenture issue of £250,000, which was redeemable, at the option of the Company, in ten or fifteen years. It was decided to create a sinking fund by setting aside out of profits £20,000 yearly. Arrangements were also made with a Building Society to open a Deposit Account on which interest at the rate of 5 per cent. free of Income Tax would be added yearly. For the year ending March 31, 1927, £20,000 was appropriated and duly deposited with the Building Society at that date. The same procedure was followed at March 31, 1928. Make entries in Journal and Ledger to show the position at March 31, 1928. [20 marks.]

4. Best & Sons, Ltd., boot retailers, opened a branch shop in Wakefield on January 1, 1928.

The accounts of the branch were kept there so far as the trading was concerned, and on December 31, 1928, the following Trial Balance was abstracted from the books at Wakefield:—

	Dr.	*Cr.*
	£	£
Head Office Account		826
Sales		7,627
Debtors	460	
Rent, Wages, etc.	1,813	
Cash in hand	326	
Goods from Head Office	5,910	
Creditors		56
	£8,509	£8,509

Stock, December 31, 1929, £1,237.

Prepare a Profit and Loss Account of the Wakefield shop for 1928. Make the Journal entry in the branch books showing how the net profit would be dealt with. [10 marks.]

5. Explain the following terms in connection with Income Tax: Schedule A, earned income allowance, taxable income, wear and tear allowance, income-tax year. [10 marks.]

6. You are secretary of a Company which instals machinery at a cost of £30,000. The life of the machinery is estimated at fifteen years, and at the end of that period the value will be very small, say £1,000. Suggest *two* methods of providing for the necessary depreciation, and state which you consider the better of the two. [10 marks.]

COUNTY COUNCIL OF THE W.R. OF YORKSHIRE.

FIRST YEAR SENIOR BOOK-KEEPING, April 1930.

(*You may attempt all the questions.*)

1. The following figures are taken from the books of Walter Richards, and from them you are required to prepare accounts showing the gross profit and the net profit for the year 1929. Also prepare a Balance Sheet as at December 31, 1929:—

	£	*s.*	*d.*	£	*s.*	*d.*
Office Furniture	250	0	0			
Discount Received				66	18	9
Bank Overdraft				241	16	7
Bad Debts	38	18	6			
Capital Account, W. Richards				500	0	0
Current Account, W. Richards	301	2	9			
Wages	336	3	3			
Salaries	175	0	0			
General Expenses	213	14	10			
Sales Returns	28	8	3			
Creditors				373	18	7
Debtors	298	1	6			
Sales				3,963	4	8
Purchases	3,111	7	5			
Stock on hand, Jan. 1, 1929	386	18	4			
Cash in hand	6	3	9			
	£5,145	18	7	£5,145	18	7

Stock on hand, December 31, 1929, £810 10*s*. [25 marks.]

2. Miss V. Brown was a shopkeeper and on January 1, 1930, her financial position was as follows:—

	£	*s.*	*d.*	£	*s.*	*d.*
Fixtures and Utensils	250	0	0			
Stock of Goods	186	14	9			
Cash at Bank	88	8	6			
She owed to						
The Eagle Flour Co., Ltd.				138	1	3
Britton & Co.				287	2	0

As on this date she agreed to take her manageress as an equal partner in the business, on condition that the latter, Miss M. Stoner, brought £400 into the business as her capital.

The transactions during the month of January were:—

1930.		£	*s.*	*d.*	£	*s.*	*d.*
Jan. 2.	Miss Stoner paid Capital to Bank				400	0	0
„ 3.	Withdrew from Bank for shop use cash				10	0	0
„ 6.	Purchased goods from Eagle Flour Co., Ltd.				27	13	9
„ 9.	Paid to Britton & Co., Cheque	279	18	6			
	Discount	7	3	6			
					287	2	0
„ 11.	Cash takings for week				163	10	0
„ 13.	Paid to Bank				150	0	0
„ 14.	Purchased sundry goods for cash				3	13	8

1930.		£ s. d.	£ s. d.
Jan. 18.	Cash takings for week . .		147 17 3
,, 21.	Sold old Fixtures for cash .		15 0 0
,, 22.	Paid to Bank		150 0 0
,, 23.	Paid Rent for quarter by cheque		25 0 0
,, 25.	Cash takings for week . .		151 1 10
,, 28.	Purchased goods from Britton & Co.		36 13 10
,, 29.	Miss Brown withdrew in cash		20 0 0
,, 31.	Paid to Eagle Flour Co., Ltd., Cheque	134 10 0	
	Discount . . .	3 11 3	
			138 1 3

Journalize the opening entry, pass all the transactions through the appropriate subsidiary books, then post the Ledger and take out a Trial Balance as at January 31, 1930. No Profit and Loss Account or Balance Sheet to be prepared. [40 marks.]

3. For what reason is depreciation written off certain assets? In the books of a manufacturer the Machinery and Fixed Plant Account showed a balance of £1,750 at January 1, 1928. His financial year ended on December 31, and he decided to depreciate this asset at the rate of 6 per cent. per annum. Make the necessary Journal entry to record this, and write up the Machinery and Fixed Plant Account for the year 1928. [15 marks.]

4. Give a short explanation of double entry book-keeping. Name *three* advantages which this system of book-keeping has. [10 marks.]

5. A trader keeps a Returns Inward Book. Give *two* examples of entries you would expect to find in such a book, and state how these would be posted to the Ledger Accounts concerned. [10 marks.]

COUNTY COUNCIL OF THE W.R. OF YORKSHIRE.

Second Year Senior Book-Keeping, April 1930.

(You may attempt a total of four questions only, which number must include Questions 1 *and* 2.*)*

1. Below is the Trial Balance of Morden & Co. as at December 31, 1929. Up to January 1, 1929, the business had been carried on by S. Morden, but at that date his manager, W. Brear, was admitted as a partner. Under the partnership agreement, Brear was to receive a salary of £500 per annum and one-third of the profit. Morden was to receive 6 per cent. interest on his Capital and the balance of profit.

Trial Balance, *December* 31, 1929.

	£	£
Capital Account, S. Morden . .		3,000
Current Account ,, . .		610
Current Account, W. Brear . .	390	
Carriage inward	167	
Carried forward . . .	557	3,610

	£	£
Brought forward	557	3,610
Returns outward		89
Sales		6,873
Purchases	3,992	
Wages	1,863	
Creditors		810
Debtors	936	
Bills payable		550
Bad Debts	75	
Motor Vans	1,260	
Motor expenses	316	
Sundry expenses	419	
Stock, Jan. 1, 1929	2,227	
Cash in hand	44	
Cash at Bank	280	
Discounts	177	214
	£12,146	£12,146

The following matters are to be taken into consideration: Rent owing December 31, 1929, £55; Stock on hand, December 31, 1929, £3,740; Motor vans to be depreciated 15 per cent.; Brear's salary had not been paid.

A debt of £210 included with debtors is estimated to be worth £70. [30 marks.]

2. Work the following exercise up to a Trial Balance, using appropriate subsidiary books for all the transactions. Balance the Cash Book. The business is that of Watson & Brewer, who were partners sharing profits in proportion to their Capitals, which were £3,600 and £2,400 respectively. Their assets at January 1, 1929, consisted of :—

	£
Stock of goods at warehouse	3,627
Goods in Toronto on consignment to W. Taylor	539
Bills receivable	800
Debtor: W. Thorner & Son	286
Cash in hand	89
Cash at Bank	1,437
Liabilities were to creditors:	
Smith & Stone	196
Carr & Co.	182
Bills payable	400

1930.			£ s. d.	£ s. d.
Jan.	1.	Advised Bank to pay bill £200 due 4th inst.		
,,	3.	Paid shipping charges in connection with consignment to Toronto		37 13 3
,,	7.	Received cash for sub-letting premises		25 0 0
,,	8.	Sold goods to Benson & Benson		88 19 0
,,	8.	Paid cheque to Carr & Co.	177 10 0	
		Discount	4 10 0	
				182 0 0

1930.		£ s. d.	£ s. d.
Jan. 9.	Received cheque from Thorner & Son, paid to Bank	283 3 0	
	Discount . . .	2 17 0	
			286 0 0
„ 10.	Bought goods from Carr & Co. . .		536 0 0
„ 13.	Received advice from Toronto agent that consignment had realized, gross . .		680 0 0
„ 14.	Bill receivable due this day paid into Bank		300 0 0
„ 16.	Withdrew from Bank for office cash .		150 0 0
„ 17.	Received cheque from Insurance Company for stock damaged by fire . . .		298 0 0
„ 18.	W. Watson withdrew cash . . .		75 0 0
„ 20.	Made another consignment of goods to W. Taylor, Toronto		556 0 0
„ 21.	Bought goods from Carr & Co. . .		117 0 0
„ 23.	Sold goods to Thorner & Son . . .		173 0 0
„ 27.	Paid insurance on Toronto consignment, cash		21 12 6
„ 28.	Received account sales from W. Taylor in respect of first consignment to him, he had deducted commission 5 per cent. from gross sales, £27 16*s.* 9*d.* for expenses paid by him, and enclosed a Bank draft for balance.		
„ 31.	Bought for cash National Health Insurance Stamps		5 5 0
„ 31.	Paid in cash Wages for month, gross .		126 0 0
	Deducted for Health, etc., Insurance .		1 12 0

[45 marks.]

3. A and B enter into a joint share transaction on the basis of sharing profits or losses equally. On July 1, 1929, they bought 1,000 shares, the total cost of which was £586 10*s.* A advanced £300 and B the balance. On August 17, 500 of the shares are sold by A for £1 1*s.* per share net, and on September 10, B sells 300 at £1 4*s.* net. On September 30, they agree to close the transaction and B takes over the balance of shares at par. Show by means of a Joint Account and separate accounts for A and B how these transactions will be recorded. [15 marks.]

4. What is meant by a Limited Liability Company?

A company with a Nominal Capital of £100,000 in £1 shares issues 50,000 shares and calls up 10*s.* per share, X and Y each hold 100 shares. X paid all the calls when due, but Y failed to pay the last call of 2*s.* 6*d.* per share. How much are X and Y still liable to pay? [10 marks.]

5. A business is carried on in three departments; how can the trading result of each department be ascertained? Name any special books which would be necessary, and give a ruling of any *one* of these. [10 marks.]

6. Give a definition of a Bill of Exchange. Name all the differences you know between a Bill of Exchange and a Promissory Note. [10 marks.]

COUNTY COUNCIL OF THE W.R. OF YORKSHIRE

First Year Advanced Accounting, April 1930.

(Answer Question 2 and not more than four others.)

1. The Brinsworth Steel Company, Ltd., was registered on May 1, 1929, with a nominal capital of £100,000 in £1 Ordinary Shares, the object of the Company being to purchase the business of the Dalton Steel Co. on the following terms; assets as below were to be taken over at book values:—

	£
Debtors	8,600
Stock	12,814
Freeholds	26,000
Plant	14,900

and creditors standing in the books at £2,314 were also to be taken over at book value.

The purchase price was £70,000, one-half of this to be paid in cash and the balance in fully paid shares. 40,000 shares were offered for public subscription. These were all applied for and allotted on the following terms:—

2*s*. 6*d*. to be paid on application.
5*s*. on allotment.
7*s*. 6*d*. to be called in one month and the balance in two months.

Allotments were made on August 1, and fully paid shares were allotted on the same day. Cash due on all calls was paid when due, and vendors were paid on October 1. Write up the Journal, Cash Book, and Ledger to record all these transactions. [20 marks.]

2. The Rugosa Manufacturing Company, Ltd., was registered with a Nominal Capital of 50,000 shares of £1 each, of which 40,000 shares had been issued. The following Trial Balance was extracted on December 31, 1929:-

	£	£
Stock (January 1, 1929)	18,642	
Manufacturing Wages	10,974	
Coal and Coke	1,924	
Purchases and Sales	82,146	116,990
Machinery Repairs	861	
Carriage Inwards	491	
Carriage Outwards	964	
Interim Dividend (July 1)	1,995	
Income Tax	1,429	
Bank Loan (5 per cent.)		5,000
Interest on Bank Loan	125	
Sundry Debtors and Creditors	16,440	9,222
Profit and Loss Account (balance from last year)		3,864
Bank Current Account	1,686	
Cash in hand	192	
Leasehold Factory	6,421	
Carried forward .	144,290	135,076

	£	£
Brought forward	144,290	135,076
Plant and Machinery	7,840	
Loose Tools	1,250	
Share Capital		40,000
Calls in arrear	100	
Rent, Rates, and Light (Factory, £1,421; Offices, £340)	1,761	
Directors' Fees	1,200	
Office Salaries and Expenses	1,425	
Office Furniture	500	
Commission	864	
Returns	1,264	981
Preliminary Expenses Account	600	
Transfer Fees		37
Goodwill	15,000	
	£176,094	£176,094

You are required to prepare Trading, and Profit and Loss Accounts for the year ended December 31, 1929, and a Balance Sheet as at that date.

The following matters must be taken into consideration:—

(*a*) Write ⅓ off the Preliminary Expenses Account.

(*b*) Write 10 per cent. depreciation off Plant and Machinery and 5 per cent. off Office Furniture.

(*c*) Manufacturing Wages £189, and Office Salaries £120, had accrued but no entries had been made in the books.

(*d*) Provide for interest due on the Bank Loan.

(*e*) The Stock was valued at £12,484 and Loose Tools at £1,000.

(*f*) Reserve £850 on the Debtors for Bad and Doubtful Debts. [40 marks.]

3. Define and explain the following: Limited Partnership; Goodwill; Income and Expenditure Account; Secret Reserve; Sinking Fund. [15 marks.]

4. A Colliery Company had a lease under which royalties of sixpence per ton were to be paid on all coal raised. The minimum rent was £300 per annum and shortworkings could be recouped over the period of the lease (15 years).

For the first five years the outputs were:—

	Tons.
First year	3,600
Second year	6,000
Third year	9,000
Fourth year	24,000
Fifth year	30,000

Show by means of Ledger Accounts the entries for the period, assuming that the amounts due were paid. [15 marks.]

5. B and C were equal partners in a business. Their partnership agreement made the following provision for ascertaining

the amount to be paid by the surviving partner in case of death of either.

B died on September 30, 1929, and the Balance Sheet of the firm at December 31, 1928, was as under :—

	£		£
B Capital Account .	12,000	Sundry Assets .	28,785
C " " .	7,500		
B Current Account .	963		
Creditors . . .	8,322		
	£28,785		£28,785

Goodwill was to be valued at 3 years' purchase price on average profits for three years: these had been, profit £3,698, profit £4,732, loss £1,161. 12½ per cent. interest to be allowed on Capital as at last Balance Sheet in lieu of profit. Show what amount would be due to B's estate. [10 marks.]

6. What advantages are to be derived from posting ledgers on the Self-balancing system? Does this system involve the use of any special books? . [10 marks.]

7. At a Directors' meeting draft accounts were submitted for the year 1929, and it was decided to appropriate the balance of £21,396 as follows:—

Half year's dividend on £60,000 7 per cent. Preference Shares less tax.

Year's dividend on £50,000 Ordinary Shares, at 8 per cent. free of tax.

Transfer £5,000 to Reserve Fund Account.

Transfer £1,500 to Pensions Fund.

Directors' additional remuneration, 10 per cent. on amount paid as dividend on ordinary shares.

Balance to carry forward.

Make the necessary entries in Journal, and show the Profit and Loss Appropriation Account in the Ledger. [10 marks.]

8. What principle would guide you in deciding whether a given expenditure was capital or revenue? A Company spent £15,000 in advertising in its first year, afterwards the average yearly expenditure on advertising was £2,000. How would you deal with these sums? [10 marks]

INSTITUTE OF BANKERS, APRIL 1930.

Note.—Every Candidate must satisfy the Examiner in Section A and in any *one* of the sub-sections of Section B.

[2 hours allowed.]

Section A.

(*All Candidates* MUST *attempt Question* 1 *and* MAY *attempt Questions* 2 *and* 3.)

1. The following Trial Balance has been extracted from the books of Tea and Sugar Limited, wholesale grocers, as at December 31, 1929.

	Dr. £	s.	d.	Cr. £	s.	d.
Issued Capital:—						
30,000 Cumulative Preference 6 per cent. Shares of £1 each				30,000	0	0
10,000 Ordinary Shares of 5*s.* each				2,500	0	0
Goodwill	16,000	0	0			
Freehold Premises	14,126	9	3			
Leasehold Premises	1,500	0	0			
Sundry Trade Debtors	4,633	8	9			
Transfer Fees				1	17	6
Bad Debts	181	2	6			
Bank Balance				151	2	9
Trade Fixtures and Utensils	2,839	13	4			
Reserve for Bad Debts				200	0	0
Calls in Arrear	50	0	0			
Stock-in-Trade, December 31, 1928	3,171	4	9			
Cash in hand	183	6	2			
Sales				64,217	9	0
Purchases	49,202	18	9			
Discounts	196	3	2	1,342	8	7
Salaries	9,332	4	2			
Rent	840	0	0			
Insurances	426	10	0			
Rates	475	0	0			
Trade Expenses	327	9	2			
Sundry Trade Creditors				5,122	12	2
Profit and Loss Appropriation Account (balance December 31, 1928)				3,000	0	0
Dividend on Preference Shares paid to December 31, 1928	1,800	0	0			
Dividend on Ordinary Shares paid to December 31, 1928	1,250	0	0			
	£106,535	10	0	£106,535	10	0

Prepare Trading and Profit and Loss Account for the year 1929 and Balance Sheet at December 31, 1929, after giving effect to the following notes. (Journal entries need not be given.)

1. 5,000 Cumulative Preference Shares and 2,000 Ordinary Shares remain unissued.
2. Raise the Reserve for Bad Debts to £500.
3. The current fire insurance policy is paid to June 30, 1930, at the rate of £375 per annum.
4. One quarter's rent, £280, is due to the landlord.
5. The Lease, purchased January 1, 1929, will expire on December 31, 1938.
6. Provide 10 per cent. depreciation on Trade Fixtures and Utensils.
7. Stock-in-Trade, December 31, 1929, £4,211 1*s.* 9*d.*

[35 marks.]

2. Set out Journal entries necessary for incorporating the following matters in Books of Account:—

(a) A Bill of Exchange (£100) is handed to us by James Hay in settlement of his account and is dishonoured by John Bee, the acceptor (ignore charges).
(b) On December 31, 1929, interest on an investment representing a Sinking Fund (which is being built up to provide for amortization of a lease) is received, £50. On the same day this is re-invested together with a further instalment (£200) then set aside.
(c) A trader purchases through Scrip & Co., his brokers, £640 Conversion 5 per cent. Inscribed Stock, 1944–64, at 100½. They charge 2*s.* for contract stamp and £1 for Commission. No cash passes as there is a running account between the parties. [20 marks.]

3. Briefly explain and comment on each of the following items: (*a*) "Liability of Customers for Acceptances and Endorsements" appearing amongst the Assets of a Bank; (*b*) a debit balance on Sold Ledger Adjustment Account in the General Ledger of a trader; (*c*) the item "Contingent Liability on Bills discounted but not yet matured" noted below the Balance Sheet of a trader. [15 marks.]

Section B.

(Questions may be attempted in one sub-section only.)

Sub-Section I.

(Two questions only are to be attempted in this sub-section.)

4. Dick, Tom and Harry are in partnership as from January 1, 1929, sharing profits and losses in the proportions 4 : 3 : 1. They contribute £500, £300 and £200 respectively as Capital, and during the year draw on account of profits £700, £500 and £150 respectively. It is arranged that each partner shall be entitled to 5 per cent. interest on Capital, but that no interest shall be charged on drawings. Before providing for interest the Profit and Loss Account for 1929 shows a credit balance of £2,400. Out of this they agree that £150 shall be set aside against the costs of a pending law-suit. Set out Profit and Loss Account, and an account for each partner showing the final amount due. [15 marks.]

5. A B died on December 31, 1928, leaving the undermentioned cash and investments in trust. During his widow's life the income is to be paid to her and her son, John B, in equal shares. On her death the property is to pass to John B absolutely.

	£
Cash at Bank	2,500
1,000 Ordinary Shares of £1 each in A B, Ltd., valued for Probate at £3 10*s.* each	3,500
2,000 Ordinary Shares of £1 each in Gold Bricks, Ltd. (in liquidation), valued for Probate at 6*d.* each . . .	50
1,000 Ordinary Shares of £1 each in Hasty Motors, Ltd., valued for Probate at par. (*Note.*—An interim dividend at 5 per cent. actual was paid on September 30, 1928, on account of year to March 31, 1929) . .	1,000
	£7,050

During 1929 the following transactions took place (Income Tax may be ignored):—

			£
Jan.	5.	Paid Estate Duty (including Interest, £3) .	285
Feb.	10.	Received dividend for the year 1928 on the A B, Ltd., shares at 10 per cent. . .	100
March	31.	Sold 500 Ordinary Shares in A B, Ltd. (cum. div.), for	1,800
May	31.	Received final dividend from Hasty Motors, Ltd., for year to March 31, 1929, making 25 per cent. for the year	200
June	30.	Received interim dividend on A B, Ltd., shares on account of 1929 . . .	25
July	31.	Received first and final distribution from the Liquidator of Gold Bricks, Ltd., of 9*d*. per share	75
Aug.	31.	Paid Mrs. A B on account of income .	25
,,	31.	Paid John B on account of income . .	25

Mrs. B died on September 30, 1929, and, by arrangement the remaining investments were sold (cum. div.) on the following day as under:—

A B, Ltd., shares at £3 10*s*. each.
Hasty Motors, Ltd., Shares at par.

Prepare accounts showing the amounts due to the parties.
[20 marks.]

6. State what you consider to be:—

(*a*) The distinguishing features of a Statement of Affairs in Bankruptcy as compared with the Balance Sheet of a going concern; and (*b*) the proper journal entries for distributing annual profits amounting to £900 between A, B and C (equal partners) where C is guaranteed an annual minimum share of £400.
[15 marks.]

Sub-Section II.

(*Two questions only are to be attempted in this sub-section.*)

7. Distinguish between the manner in which profits are ascertained in the cases of (*a*) a Life Assurance Company and (*b*) a Fire Insurance Company. [15 marks.]

8. Compute Mr. A. Trader's liability for Income Tax for the year 1929–30, having been given the following facts:—

	£
Salary for the year to March 1929, as director of a company	700
He owns his residence, which is of the net Annual Value of	32 per annum
He pays Building Society interest in connection with a mortgage on his house (without deduction of tax)	90 per annum
His life is insured in a British office for £1,000, premium	130 per annum
He is married but without children.	
He supports his aged mother.	

[20 marks.]

9. Briefly state :—

(*a*) your objections to the practice of Charities in publishing annual statements of Receipts and Payments only; and (*b*) the principles on which a Gas Company should divide expenditure between Capital and Revenue when rebuilding a gasometer on an enlarged scale. [15 marks.]

INSTITUTE OF BANKERS, APRIL 1931.

(*Note.*—Candidates must satisfy the Examiner in Section A and *either* sub-section I *or* sub-section II of Section B. Question 1 is compulsory; 2 and 3 may be attempted, together with not more than two in either sub-section of Section B. One sub-section only of Section B may be attempted.)

[2 hours allowed.]

Section A.

1. The Triumph Kettle Manufacturing Company, Ltd., was registered on January 1, 1929, with a Nominal Capital of £75,000, divided into 50,000 Ordinary Shares of £1 each and 25,000 Cumulative Preference Shares (6 per cent.) of £1 each. The following balances were extracted from its books on December 31, 1930 :—

		£	£
Ordinary Shares (30,000 £1 Shares, fully paid)			30,000
Cumulative Preference Shares (20,000 £1 Shares, fully paid) . . .			20,000
Freehold Premises		18,000	
Plant and Machinery . . .		12,700	
Motor Lorries		1,500	
Loan on Mortgage at 5 per cent. per annum		1,000	
Sundry Creditors			3,907
Sundry Debtors		18,180	
Patents Account		750	
Stock, January 1, 1930 :			
Sheet Metal	£6,352		
Kettles	1,739		
		8,091	
Reserve for Bad Debts . .			500
General Reserve . . .			3,000
Sheet Metal purchased . .		53,219	
Kettles sold			81,265
Factory Wages		17,433	
Office Salaries		1,742	
Electricity (power) . . .		1,317	
Lighting : Factory £315, Office £27		342	
Carriage : Inwards £1,426, Outwards £837		2,263	
Rates and Insurance . . .		410	
Discount Account . . .		285	
Audit Fee		105	
Carried forward . . .		137,337	138,672

	£	£
Brought forward	137,337	138,672
Balance at Bank	3,531	
Cash in hand	23	
Profit and Loss Account (Balance January 1, 1930)		2,819
Cumulative Preference Dividend (half-year to June 30, 1930)	600	
	£141,491	£141,491

Prepare Manufacturing and Profit and Loss Accounts for the year 1930, and a Balance Sheet at December 31, 1930. Ignore Income Tax but make the following adjustments:—

(*a*) Stock at December 31, 1930, was—

	£	£
Sheet Metal . . .	7,143	
Kettles	3,235	
		10,378

(*b*) Provide depreciation at the following rates:—

Plant and Machinery . . .	10 per cent.
Motor Lorries	20 ,,
Patents	33⅓ ,,

(*c*) The Reserve for Bad Debts to be increased so as to be equal to 5 per cent. on the Sundry Debtors.

(*d*) One year's interest on the Loan on Mortgage must be provided.

(*e*) Transfer £500 to General Reserve. [30 marks.]

2. Distinguish between "Fixed" and "Floating" Assets. Briefly explain the importance of the distinction and state what reference to the matter is made by the Companies Act, 1929. [20 marks.]

3. The X Y Company, Ltd., issued £50,000 Debenture Stock secured by trust deed conferring a floating charge on all the assets of the Company with interest at 5 per cent. per annum. Of this amount £20,000 was subscribed at a premium of £2 10*s*. per cent., £20,000 was subscribed at par, and £10,000 was deposited with the Company's Bankers by way of collateral security for a loan of £8,000. Set out the entries which should appear in the Company's Balance Sheet as a result of these transactions. [15 marks.]

Section B (Sub-Section I).

4. John Brown died on September 30, 1930, and his property was valued for probate as follows:—

	£
Cash in house	5
On deposit at Bank	920
On current account at Bank . . .	1,350
2,000 Shares of £1 each (10*s*. paid) in A B, Ltd.	1,750
Interest on deposit accrued . . .	3

He directed that all the property should be held in trust for his widow and daughter equally for life with remainder to his son. The trustees paid the cash in house into the Bank, and

received and paid the following through the Bank Current Account.

Receipts.

1930.		£
Nov. 30.	Dividend on the A B Shares for the year to October 31, 1930	360
Dec. 31.	Interest on deposit account, six months to date (credited in current account by the Bank)	6
		£366

Payments.

1930.		£
Oct. 16.	Funeral Expenses	25
Dec. 31.	Estate Duty	120
,, 31.	Interest on Estate Duty . . .	1
,, 31.	Widow, on account of Income . .	50
1931.		
Jan. 31.	Call on 2,000 Shares in A B, Ltd., at 10*s.* per Share	1,000
		£1,196

Write up Estate Capital Account and Income Account, and draw up a Balance Sheet of the trust at March 31, 1931.

Notes.—(1) Apportionments may be made by reference to monthly periods.

(2) Legacy Duty and Income Tax may be ignored.

[15 marks.]

5. Old and Young are partners sharing profits and losses equally. On December 31, 1930, their balance sheet, as prepared from their books, was as under :—

BALANCE SHEET, *December* 31, 1930.

Capital and Liabilities.	£		*Assets.*	£
Capital Accounts :—			Freehold Premises	3,000
Old . .	5,000		Fixtures and Fittings	1,500
Young . .	4,000		Stock-in-Trade .	3,250
		9,000	Sundry Debtors .	8,150
Sundry Creditors		7,000	Bank Balance .	100
		£16,000		£16,000

It is agreed that Old shall retire as from December 31, 1930, and that Young shall take over the business on the following terms :—

(*a*) The Goodwill of the firm to be agreed as worth £1,000.
(*b*) Stock-in-Trade to be agreed as worth £2,750.
(*c*) A Reserve for Doubtful Debts (4 per cent. on Sundry Debtors) to be created.
(*d*) Old to be paid out as to £2,000 of the amount found to be due to him by a mortgage at 5 per cent. per annum secured on the Freehold Premises, and as to the balance by a Bill of Exchange (without interest) at 12 months.

Set out Journal entries recording the matters (*a*) to (*d*) above and the Balance Sheet of Young on January 1, 1931, after the adjustments have been made. [20 marks.]

6. You are liquidator of the Bubble Company, Ltd., and you have in hand, after paying all creditors and the cost of the liquidation, a sum of £2,500. The Company has issued the undermentioned Ordinary Shares (there are no other shares) :—

	£
500 (numbered 1 to 500) of £5 each, fully paid . .	2,500
500 (numbered 501 to 1,000) of £5 each, £3 per share paid up	1,500
	£4,000

Prepare a Distribution to Shareholders Account, setting forth the manner in which you propose to distribute the cash in your hands. [15 marks.]

Sub-Section II.

7. A B is a bachelor resident in London. From his Bank Pass Book you ascertain the following as his income received in cash during the year ended March 31, 1930 :—

	£
Interest for the year to December 31, 1929, at 5 per cent. on £30,000 debentures of a British Company . .	1,200
Dividends on £15,700 War Loan, 5 per cent., 1929–47 (Inscribed)	785
Voluntary allowance from his father	300

You ascertain that there are no other sources of income, that the income has remained unchanged for several years, and that no alteration is contemplated. Advise A B with regard to Income Tax and Sur Tax for 1930–31, and state when these taxes will be payable. [15 marks.]

8. Gas Companies, and similar undertakings, often keep the accounts between themselves and their customers in a "Tabular Ledger." Describe the general features of such a ledger and state its advantages. [20 marks.]

9. An ordinary Manufacturing Company (working on the single account system) sells an old machine for £100 and replaces it at a cost of £1,200. State carefully how you would deal with the matter in the books. If the Company were working on the double account system, how would you deal with the matter? [15 marks.]

CHARTERED INSTITUTE OF SECRETARIES.

INTERMEDIATE EXAMINATION, June 1929.

[2 hours allowed.]

1. (*a*) What is an Account Current?

(*b*) A owed to B at December 31, 1928, a balance of £100. He received further goods from B on January 31, March 31, and May 31, 1929, to the value of £200, £300, and £400 respectively. A made a cash payment to B of £200 on February 28, 1929, and on April 30 a further payment of £500 and a return of goods to the

value of £100 on the same date. Show the transactions recorded above in Ledger Account form in B's books as at June 30, 1929, charging and allowing interest at the rate of 5 per cent. per annum, using the Product method for interest calculations.

2. The following is the Balance Sheet of a Company whose Directors request you to formulate a scheme for a proposed reduction of the Capital. Draft a report indicating what you consider the most equitable arrangement as between the two classes of Shareholders involved and show the Company's Balance Sheet as it would appear were your suggestions adopted.

Liabilities.	£	*Assets.*	£
Share Capital Authorized and Subscribed:		Land and Buildings, Plant and Machinery	550,000
6 per cent. Cumulative Preference Shares of £1 each	300,000	Goodwill	60,000
Ordinary Shares of £1 each	500,000	Office Furniture and Fittings	1,000
Debentures	150,000	Sundry Debtors and Payments in Advance	100,000
Bank Loan	25,000	Bills Receivable	87,500
Sundry Creditors	125,000	Cash at Bank and in hand	1,500
		Profit and Loss Account	300,000
	£1,100,000		£1,100,000

3. A B, as Managing Director of a Produce Company, receives a salary of £1,750 per annum. In addition, he has a fixed interest bearing investment yielding £56 (gross) annually. He is a married man with one daughter (aged 14), and pays £370 10*s*. per annum for Life Assurance Premiums on three Policies effected on his own life, details regarding which are as under:—

	£	*s.*	*d.*
(*a*) For £3,000 taken out in 1908	97	18	0
(*b*) For £2,000 „ „ 1924	177	6	0
(*c*) For £2,000 „ „ 1925	95	6	0

Draw up a Statement setting out the various allowances and reliefs to which A B is entitled, and state in terms of tax the amount payable by him for the year 1928–29, mentioning when such tax is payable.

4. From the following figures prepare Trading Account, Profit and Loss Account and Balance Sheet of the Alpha Beta Manufacturing Company, Ltd., at December 31, 1928:—

	£
Discounts Allowed	1,200
Carriage Inwards	2,300
Patterns	15,000
Rates, Taxes, etc.	2,200
Patents and Trade Marks	6,000
Stock, January 1, 1928	26,600
Purchases	49,300
Wages	52,200
Fuel	2,520
Buildings	50,000

	£
Machinery and Plant	30,000
Goodwill	21,000
Debtors	16,020
Advertising	3,300
Trade Expenses	4,100
Bad Debts	1,020
Cash	720
Debenture Interest—half-year to June 30	400
Interim Dividend—half-year to June 30	1,200
Directors' Fees	2,000
Bank Charges	1,640
Ordinary Shares	80,000
4 per cent. Debentures	20,000
Bank Overdraft	30,280
Creditors	9,620
Sales	144,680
Profit and Loss Account, January 1, 1928	4,140

The nominal Capital of the Company is £100,000; Stock at December 31, 1928, £28,320. Depreciation to be written off:—Machinery and Plant, 5 per cent.; Patterns, 10 per cent.; Patents and Trade Marks, 10 per cent. Allow 2½ per cent. on Debtors for Discounts and reserve £860 for Bad and Doubtful Debts.

CHARTERED INSTITUTE OF SECRETARIES.

INTERMEDIATE EXAMINATION, December 1929.

[2 hours allowed.]

1. The following balances appear in the books of Messrs. Ever & Ready, Ltd., Wholesale Grocers, at June 30, 1929:—

	£
7½ per cent. Debentures	20,000
Share Capital Account (Ordinary Shares of £1 each)	100,000
Bills Payable	10,500
Bills Receivable	26,500
Balance at Bank	2,500
Cash in hand	750
Purchases	220,000
Sales	270,000
Stock, July 1, 1928	50,000
Freehold Land and Buildings	20,000
Leasehold Land and Buildings	5,000
Rent of Leasehold Premises (payable)	750
Office Furniture	400
Trade Fixtures and Fittings	11,200
Plant and Machinery	20,000
Repairs to Premises	400
Insurance Premiums	250
Rates	2,000
Wages	14,000
Salaries	2,000
Directors' Fees	700
Audit and Accountancy Fees	105
Sundry Trade Expenses	495

	£
Sundry Office Expenses .	550
Debtors per Sales Ledger .	29,000
Creditors per Bought Ledger	7,000
Freight Inwards . .	600
Freight Outwards	1,300
Profit and Loss Account, July 1, 1928 (Credit Balance)	2,000

Stock at June 30, 1929, was valued at £60,000 subject to a deduction of 2½ per cent. thereon.

Depreciate Leasehold Premises at the rate of 2 per cent. per annum, Plant and Machinery and Office Furniture at the rate of 5 per cent. per annum, Trade Fixtures and Fittings at the rate of 10 per cent. per annum. In addition to making provision for Debenture Interest, provide £250 on account of accrued Wages, £750 for Bad Debts, and £1,500 for Income Tax.

Payments in advance amount to £120, viz. £100 for Rates and £20 for Insurance.

From the foregoing information prepare a Trading Account, Profit and Loss Account and Balance Sheet.

2. The Trial Balance extracted from the books of a Private Company at December 31, 1928, reveals a difference of £27.

From the under-mentioned figures prepare Sales and Bought Ledger Adjustment Accounts and show in which Ledger the error

	£
Opening Balances in Bought Ledger	11,805
Opening Balances in Sales Ledger	20,201
Bad Debts written off	320
Bills Receivable .	1,200
Bills Payable . .	5,940
Cash paid for Purchases	37,350
Cash received from Customers	60,260
Discounts Allowed	1,050
Discounts Received	250
Purchases .	40,325
Purchases Returns	289
Sales . .	57,360
Sales Returns	2,166
Bought Ledger Closing Dr. Balances	15
Bought Ledger Closing Cr. Balances	8,316
Sales Ledger Closing Dr. Balances	12,726
Sales Ledger Closing Cr. Balances	188

3. As Secretary of a Company, you are referred to by one of the Directors on the subject of his personal Income Tax Assessment. He furnishes you with the following information:—

He is a married man with two children, aged 7 and 5 respectively, and supports a widowed mother. His wife, who has a Millinery business, also owns the leasehold house they occupy, the net Annual Value of which is £45, Ground Rent and Interest charges on the property amounting to £20 (£10 each) per annum. His remuneration from this and other directorships for the year ended March 31, 1929, was £600, and the Profits from his wife's business during the same period were agreed with the Inspector of Taxes at £200. In addition, their joint income included £20 from Bank Deposit Interest £30 (gross) from Dividends and

£40 (net) income received from the Trustees of the Marriage Settlement. Life Assurance Premiums in respect of his own life and that of his wife amounted to £70 per annum, covering a total sum assured of £1,500, the relative Policies being dated June 1921 and June 1923, respectively.

Prepare a Statement for submission to your Director setting out clearly his total Income and his total tax liability for 1929–30, indicating at the same time the manner in which the tax is collectible by the Inland Revenue.

4. A Timber Merchant bought a consignment of Timber on June 1, 1929, for £5,250, paying for same by Acceptances of equal amount due in two, four and six months respectively. He sold the Timber on the same day for £6,000 to a Building Contractor, who agreed to pay for it as to one-half in cash on June 30, 1929, and as to the balance by a three months' Bill. The Timber Merchant discounted the latter on the day of its receipt (June 1) at the rate of 5 per cent. per annum, and a month later, having funds available, retired his Acceptances under rebate at the rate of 2½ per cent. per annum. You are required to record the transactions referred to above in the Books of the Timber Merchant.

CHARTERED INSTITUTE OF SECRETARIES.

Final Examination, December 1929.

[2 hours allowed.]

1. Two Iron and Steel Merchanting firms amalgamated, and under the style of Amalgamated Ironmongers, Ltd., commenced business on January 1, 1928. The authorized Capital of the Company was £100,000 in 100,000 shares of £1 each; 80,000 shares were issued, whereon 17*s.* 6*d.* per share had been called up and paid during the year 1928. There was also a Debenture issue of £20,000 in multiples of £1, bearing Interest at the rate of 8 per cent. per annum, payable half-yearly. The Debentures, which were issued to Shareholders only, were taken up at par and paid in full on the formation of the Company.

The Debentures were to be redeemed in ten years through a Reserve Fund to which £2,000 had to be credited each year, the Interest on the Reserve Fund accruing to the Company.

The books on December 31, 1928, disclosed the following balances:—

	£
Share Capital Account	70,000
Debentures	20,000
Machinery and Plant	50,000
Freehold Premises	25,000
Creditors	32,000
Debtors	44,000
Rates	3,000
Office Furniture	750
Stock, January 1, 1928	40,000
Purchases	96,000
Sales	194,000
Goodwill	17,000
Preliminary and Formation Expenses	8,250

	£
Cash at Bank	4,660
Cash in hand	1,500
Wages	25,000
Salaries	4,250
Bills Receivable	1,450
Bills Payable	5,500
Debenture Holders' Interest Paid less Tax	640

The Stock on Hand at December 31, 1928, was £38,000.

Write off Depreciation at the rate of 10 per cent. per annum on Machinery and Plant and Office Furniture, and at the rate of 2 per cent. per annum on Freehold Premises. Provide for writing off the Preliminary and Formation Expenses over a period of three years; also provide £1,000 for Bad and Doubtful Debts, and £2,500 for Income Tax.

Prepare Trading Account, Profit and Loss Account, Appropriation Account and Balance Sheet.

2. A Public Company passed the necessary Special Resolution and received the sanction of the Court for the reduction of its paid-up Capital by £250,000 for the purposes enumerated hereunder :—

(*a*) Writing off the debit balance on Profit and Loss Account (£145,000).
(*b*) Reducing the value of Plant and Machinery by £45,000.
(*c*) Reducing the value of Goodwill by £20,000.
(*d*) Reducing the value of Investments to market price by writing off £40,000.

The reduction was made by converting the 500,000 Preference Shares of £1 each (fully paid) to the same number of Preference Shares of 15*s*. each (fully paid) and by converting the 500,000 Ordinary Shares of £1 each (15*s*. paid) into 1,000,000 Ordinary Shares of 5*s*. each (fully paid).

Show the Journal and Ledger entries necessary in relation to the Capital reduction referred to above and state how each of the items affected should appear in the next Balance Sheet of the Company.

3. The Accounts of the Excelsior Trading Company, Ltd., for the year ended December 31, 1928, include the undermentioned items :—

	£
Balance from Trading Account (Gross Profit)	66,973
Interest on Investments	4,983
Transfer Fees	274
Office and Administration Expenses	14,983
Travelling and Distribution Expenses	20,395
Special Newspaper Advertising	900
Income Tax Reserve	4,612
Interest on Debentures (gross)	4,200
Directors' Fees	4,000
Preliminary Expenses	1,600
Depreciation on Plant	2,500
Transfer to Pension Fund	2,700
General Reserve for Contingencies	2,000
Loss on Investments	140
Repairs to Premises	500

The Office and Administration Expenses include the following items :—

	£
Legal Expenses *re* collection of Book Debts	36
Charitable Subscriptions	10

Half the Expenditure under the head of Repairs to Premises is agreed as being in the nature of "Improvements." Wear and Tear Allowance has been agreed at £1,800. From the foregoing information arrive at the Company's Income Tax Assessment for 1929–30 and show the amount of tax payable.

4. You are asked by the Directors of a Public Company having an authorized and issued Capital of £650,000 (250,000 6 per cent. Preference Shares of £1 each and 400,000 Ordinary Shares of £1 each) to outline for them a Report for circulation to the Shareholders. The Report is to include an Appropriation Account embodying the undermentioned facts and figures and a reference to the final dividend on the Ordinary Shares recommended by the Directors and the amount to be carried forward. Add any general paragraphs or notes you may think necessary :—

	£
Net Profit for the year 1928	150,000
Transfer to General Reserve	15,000
Transfer to Upkeep Reserve	10,000
Balance brought forward from 1927	45,000

A complete year's dividend for 1928 has been paid on the Preference Shares, less tax. An interim dividend of 5 per cent. less tax was paid on the Ordinary Shares in November 1928.

CHARTERED INSTITUTE OF SECRETARIES.

Intermediate Examination, June 1930.

[2 hours allowed.]

1. The following Balances relate to the Accounts of a private Limited Company (carrying on business as Milinery Warehousemen) which closed its financial year on December 19, 1929 :—

	£
Authorized and Issued Share Capital	13,500
Sundry Creditors (Trade Accounts)	834
Income Tax Reserve	1,184
Profit and Loss Account, Credit Balance, December 20, 1928	5,278
Dividend for year 1928, at 15 per cent.	2,025
Cash at Bank and in hand	2,310
Sundry Debtors	13,210
Loans to Directors	3,000
Goodwill	4,500
Stock at December 20, 1928	1,083
Purchases, less Returns, Discount, etc.	85,185
Sales, less Returns, Discounts, etc.	107,946
Bank Interest received	65
Directors' Salaries	3,003
Travellers' Salaries and Commission	3,698
Hire of Motors	1,442

	£
General Wages and Salaries	2,468
Rent and Rates	1,384
Lighting and Heating	70
Insurance and Telephone	160
Sundry Expenses	680
Printing and Stationery	244
Postages	228
Advertising	807
Carriage Outwards	1,360
Packing Charges	531
Directors' Travelling Expenses	526
Legal and Accountancy Charges	120
Repairs	35
Bad Debts	738

Stock on hand at the close of the year was valued at £1,268.

Provide a Reserve for Discounts of $3\frac{3}{4}$ per cent. in respect of Sundry Debtors and Sundry Creditors (Trade Accounts)—(to nearest £).

Payments in Advance as under had been made :—

	£
Directors' Salaries	50
Travellers' Salaries	50
General Wages and Salaries	24
Rates	80
Insurance	20

On the other hand, the undermentioned amounts were due in respect of accrued charges, viz. :—

	£
Rent	300
Lighting and Heating	25
Telephone	25
Travellers' Commission	1,600
Hire of Motors	100
Sundry Expenses	54

The Company's Income Tax Assessment for the year 1929–30 was agreed at £4,000.

Prepare Trading and Profit and Loss Account for the year and Balance Sheet as at December 19, 1929.

2. Four Partners—A, B, C and D—trading under the firm name of A B & Co. have businesses working independently in London, Edinburgh and Dublin. A and B manage the London branch, each receiving one-third of the profits from the London business, the balance being shared equally between C and D. C manages the Edinburgh house, receiving half of the profits from the business there, the balance being shared equally between A, B and D. D manages the Dublin business, receiving one-third of the profits arising therefrom, the balance being shared equally between A, B and C. At the end of each year a combined Statement is prepared showing the general position of the firm and the condition of each Partner's Account.

From the following separate Statements, which relate to the year ended March 31, 1930, prepare a combined Account and general Balance Sheet of the firm. Interest on Partners' capital and drawings may be ignored.

London House.

	£		£
Creditors . .	15,000	Debtors . .	23,000
Edinburgh House .	3,000	Dublin House .	2,000
A's Capital . .	10,000	Stock . . .	13,000
B's Capital . .	10,000	A's Drawings .	1,000
Profit and Loss .	9,000	B's Drawings .	1,000
		Cash . . .	7,000
	£47,000		£47,000

Edinburgh House.

	£		£
Creditors . .	9,000	Debtors . .	11,000
Dublin House .	4,000	London House .	3,000
C's Capital . .	5,000	Stock . . .	3,000
Profit and Loss .	6,000	C's Drawings .	1,000
		Cash . . .	6,000
	£24,000		£24,000

Dublin House.

	£		£
Creditors . .	7,500	Debtors . .	9,000
London House .	2,000	Edinburgh House .	4,000
D's Capital . .	5,000	Stock . . .	5,000
Profit and Loss .	7,200	D's Drawings .	500
		Cash . . .	3,200
	£21,700		£21,700

3. Give full details of the Reliefs allowed for Income Tax purposes under the following headings: Earned Income; Personal Allowance; Children; Housekeeper; Dependent Relatives; Life Assurance; Reduced Rate Relief.

4. A company registered with a Capital of £1,000,000 in £10 shares issues 80,000 shares at a premium of 2*s.* per share, payable £2 12*s.* on application, including the premium, and £2 10*s.* on allotment. It also issues 5 per cent. Debentures to the extent of £100,000 at £104 per £100 payable £14 on application, including the premium, and the balance on allotment. The Company acquires a business for £250,000 payable £200,000 in fully paid-up shares and £50,000 in cash. The registration fee and formation expenses, which amount to £6,000, are to be paid out of the premium of 2*s.* per share; the balance is to be carried to a reserve. The premium on the issue of Debentures is to be carried to the same reserve. Make Journal entries carrying the above into effect.

CHARTERED INSTITUTE OF SECRETARIES.

FINAL EXAMINATION, June 1930.

[2 hours allowed.]

1. The Audax Iron and Steel Co., Ltd., of Birmingham, is purchased or absorbed by the Beta Iron and Steel Co., Ltd., of

Darlington, and is afterwards carried on as a Branch Works only.

The consideration for the purchase or absorption is the discharge of the Debenture debt at a premium of 10 per cent., and a payment in cash of £7 10*s*. and the exchange of three £1 shares in the Beta Company of the market value of £2 10*s*. per share for every share in the Audax Company.

The following is the position of the Audax Co. when taken over:—

	£
Capital—60,000 fully paid shares of £10 each	600,000
Debenture Stock	280,000
Sundry Creditors	39,754
Workmen's Savings Bank	21,205
Insurance Fund	10,000
Reserve Fund	65,000
Profit and Loss Account Balance	5,662
	£1,021,621
Land and Buildings	189,885
Plant and Machinery	435,492
Patterns and Drawings	5,000
Patents	9,577
Work in Progress and Stocks on hand	211,452
Furniture and Fittings	1,444
Cash in hand	120
Cash at Bankers'	77,396
Sundry Debtors	91,255
	£1,021,621

Make the necessary closing and opening entries in the Books of the purchased and purchasing Companies respectively.

2. The following are items in the Trial Balance of a Limited Company on June 30, 1929:—

	£
Stock, January 1, 1929:	
Finished Goods (1,600 tons)	16,380
Raw Materials	7,640
Chemicals	390
Purchases of Raw Materials	142,620
Purchases of Chemicals (net price)	12,370
Factory Wages	156,000
Factory Oncost	12,000
Depreciation:	
Machinery and Plant	16,000
Factory Buildings	400
Lease of City Office	500
Sales (35,400 tons)	400,000
Carriage Outwards	2,320
Salaries	22,400
General Expenses	18,310
Trade Discounts received	3,400
Cash Discounts Allowed	5,100

Stocks on hand at June 30, 1929, were as under :—

	£
Finished Goods (1,200 tons)	12,380
Raw Materials	6,860
Chemicals	760

Prepare Manufacturing, Trading and Profit and Loss Accounts for the half-year ended June 30, 1929.

3. The Profit and Loss Account of Black & White, Ltd., for the year ended January 31, 1930, was as under :—

		£
By Gross Profit from Trading		12,096
,, Rent charged to Factory		110
,, Dividends (taxed at source)		200
,, Interest on £2,000 5 per cent. War Loan		100
,, Profit on sale of old Plant		19
,, Premiums on Shares issued		450
		£12,975

		£
To Rent		200
,, Advertising		124
,, Patent Royalties (gross)		80
,, Interest on Bank Overdraft		49
,, Debenture Interest (gross)		100
,, Bad Debts		49
,, Income Tax :	£	
Schedule " D " on £1,060	212	
Paid on Directors' Fees under Service Contracts	31	
		243
,, Directors' Fees		900
,, Insurance		49
,, Depreciation of Machines		180
,, Loose Tools (renewals)		30
,, Repairs to Premises		13
,, Law Costs		71
,, Superannuation Fund Contributions		450
,, Donations to Hospitals		800
,, Defalcation (Managing Director)		316
,, Debenture Issue Expenses		84
,, Salaries and General Expenses		6,111
,, Balance, Net Profit		3,126
		£12,975

Notes.—Advertising included £36 cost of a new Electric Sign. Law Costs included £41 *re* Issue of Shares. In the year ended January 31, 1929, a cutting machine was scrapped, the sum of £6 being received during the same period on its sale. The original cost of such machine was £210 and the total wear and tear allowances made by the Inland Revenue amounted to £165. The machine was replaced on February 10, 1929. You are required to prepare a computation of the Company's Assessment to Income Tax Schedule " D " (Case 1) for the year 1930–31.

4. On January 1, 1929, Rolex Trading Co., Ltd., acquired

25,000 shares of £1 each (fully paid) in Thorn's Ltd., at a cost of £2 per share. Six months later, Balance Sheets of the two Companies were prepared as under :—

ROLEX TRADING CO., LTD.—BALANCE SHEET, June 30, 1929.

	£		£
Authorized and Issued Share Capital in shares of £1 each	200,000	Buildings, etc.	210,000
General Reserve	50,000	Stock	45,000
Creditors	15,000	Debtors (*a*)	20,000
Profit and Loss Balance, July 1, 1928	25,000	Cash	5,000
Profit for year	40,000	Shares in Thorn's Ltd.	50,000
	£330,000		£330,000

(*a*) Includes £5,000 due from Thorn's Ltd.

THORN'S LTD.—BALANCE SHEET, June 30, 1929.

	£		£
Authorized and Issued Share Capital in shares of £1 each	30,000	Buildings, etc.	35,000
General Reserve	6,000	Stock	10,000
Creditors	10,000	Debtors	15,000
Profits and Loss Balance, July 1, 1928	3,000	Cash	1,000
Profit for year	12,000		
	£61,000		£61,000

Prepare a consolidated Balance Sheet as at June 30, 1929.

CHARTERED INSTITUTE OF SECRETARIES.

INTERMEDIATE EXAMINATION, December 1930.

[2 hours allowed.]

1. On January 1, 1929, a Company with a Nominal Capital of £100,000 in Ordinary Shares of £1 each was formed to take over the business and assets of Richard Best & Sons at the following valuation :—

	£
Leasehold Land and Premises	20,000
Goodwill	25,000
Book Debts (guaranteed by the Vendors)	8,000
Stock	7,000

There were no amounts owing to Creditors.

The public subscribed for £23,500 of the Capital. The vendors took £8,500 of the purchase money in cash and the remainder in fully paid shares. 150 shares belonging to the public were forfeited for non-payment of the two last calls of 5*s*. each, 10*s*. per share having been paid thereon.

At the end of the first year the figures extracted from the Company's Books were as under :—

	£
Purchases	37,500
Sales	49,000
Discounts received	475
Discounts allowed (of which £135 was in respect of debts taken over by the Company)	900
Trade Expenses	1,300
Advertising	2,500
Wages	3,700
Salaries	1,000
Rent	600
Rates and Taxes	250
Directors' Fees	400
Trade Debtors	13,150
Trade Creditors	6,000
Cash in hand	4,400
Machinery purchased	10,000
Interim Dividend paid	1,850
Bad Debts (of which £350 was in respect of debts taken over by the Company)	850
Stock	12,400

Write off £400 from Leasehold Land and Premises Account and prepare the Company's Balance Sheet as at December 31, 1929, and Trading and Profit and Loss Account for the year.

2. Roy Price & Co., Ltd., have an issued Capital of £200,000 in Ordinary Shares of £1 each and make up their Accounts annually as at September 30.

On September 30, 1929, the following balances (*inter alia*) stood in their books :—

	£
Profit and Loss Account (Cr.)	37,351
Dividend Account No. 16 (Cr.)	160
,, ,, No. 17 (Cr.)	1,212
Dividends Unclaimed (Cr.)	527
Dividend Cash Account (Dr.)	1,372
Deposit Account for Dividends unclaimed (Dr.)	527

At the Annual General Meeting held on December 10, 1929, a final Dividend (No. 18) of 15 per cent. less tax, was declared in respect of the year to September 30, 1929. On May 15, 1930, the Directors declared an interim dividend (No. 19) of 5 per cent. less tax. During the year ended September 30, 1930, the following warrants were presented to the Company's Bankers for payment :—

		£
Dividend No.	12	27
,,	16	124
,,	17	1,108
,,	18	23,736
,,	19	7,460

On September 30, 1930, the outstanding balances of dividends Nos. 16 and 17 were transferred to the Unclaimed Dividends Account.

You are required to write up the various accounts affected by the above transactions, bringing down balances where possible.

(*Note.*—Journal entries are not required.)

3. Messrs. Teak & Walnut, Ltd., trading as Timber Merchants, closed their financial Accounts annually on December 31.

For the year ended December 31, 1929, the Net Profit shown by the Accounts was £455, after charging the following items :—

	£
Directors' Fees	500
Depreciation	41
Loan Interest	147
Income Tax Schedule "A"	6
Rent	300
Bad Debts	20
Insurance	154

The Gross Schedule "A" Value of the Company's premises was £400. An allowance for Wear and Tear of Plant at the rate of 5 per cent. per annum was agreed with the Inspector, the written down value of the asset for Income Tax purposes being £294. Prepare the Company's Income Tax Assessment for the year 1930–31 and state in terms of tax the amount payable by the Company, at the same time indicating when such amount is payable.

4. Public Utilities Stores Ltd., a multiple shop concern, invoice all goods to their Branches at 25 per cent. above cost price, the cash received by each Branch being remitted to Head Office at the close of each month. On July 1, 1930, goods costing £4,000 were invoiced to the Birmingham Branch, and on July 31 the Manager of that Branch made his monthly report showing that the Credit Sales had been £2,640; Cash Sales, £2,400; Cash received from Debtors, £1,840. Goods invoiced at £45 had been returned by the Branch to the Head Office. The invoice price of the Stock at the Branch on July 31 was £720. Prepare the Head Office Ledger Accounts recording these transactions and show the actual profit made by the Branch during the month in question.

CHARTERED INSTITUTE OF SECRETARIES.

Final Examination, December 1930.

[2 hours allowed.]

1. A Company registered under the name of Richard Stone & Co., Ltd., was formed on October 1, 1929, with a Nominal Capital of £150,000 divided into 125,000 Ordinary Shares of £1 each and 25,000 6 per cent. Preference Shares of £1 each to acquire the business of Richard Stone, Packing Case Manufacturer, whose Balance Sheet on the date in question was as follows :—

	£		£
Sundry Creditors	8,940	Freehold Premises	13,200
Bills Payable	1,380	Plant and Machinery	12,700
Richard Stone—		Sundry Debtors	14,630
Capital A/c	40,600	Stock	8,720
		Cash	1,670
	£50,920		£50,920

The book values of the assets and liabilities were agreed for the purpose of sale to the Company in the figures stated above, the purchase consideration being fixed at £50,000, to be satisfied by a cash payment of £20,000 and by the issue of fully paid Ordinary Shares at par. Independent valuations were made of the Freehold Premises and the Plant and Machinery of £15,000 and £13,500 respectively, and the Directors decided to use these figures when preparing the Company's Balance Sheet. The items in the Balance Sheet shown above were journalized in order to open the Company's books, and Ordinary Shares were allotted to the Vendor, but no other entries apart from the posting of the cash paid to the Vendor were made in connection with the acquisition of the business.

The following Trial Balance was extracted from the Company's Books as at September 30, 1930 :—

	£	£
Ordinary Share Capital (45,000 shares 10*s*. called and paid)		22,500
Preference Share Capital fully called		25,000
Calls in arrear	300	
Vendor's Account		20,600
Freehold Premises	13,200	
Plant and Machinery	12,700	
Do. purchased on January 1, 1930	6,800	
Stock, October 1, 1929	8,720	
Purchases (less Returns)	67,530	
Sales (do.)		124,040
Office Salaries	3,780	
Leasehold Premises purchased on March 31, 1930	4,200	
Bills Receivable	990	
Factory Wages	37,850	
Office Expenses	3,970	
Rates and Insurance (4/5 Factory)	3,550	
Factory Expenses	2,830	
Carriage on Purchases	1,270	
Do. on Sales	2,890	
Directors' Fees	1,500	
Cash Discounts allowed	2,280	
Do. received		1,540
Preliminary Expenses	2,950	
Sundry Debtors	19,800	
Sundry Creditors		12,750
Cash at Bank	9,320	
	£206,430	£206,430

You are required to prepare Trading and Profit and Loss Accounts for the year ended September 30, 1930, and a Balance Sheet as at that date, taking the following into consideration :—

(*a*) Plant and Machinery to be depreciated at the rate of 10 per cent. per annum.

(*b*) A reserve for Bad Debts to be created equivalent to 5 per cent. of the Sundry Debtors.

(*c*) The whole of the Preliminary Expenses to be written off.

(*d*) The lease of the premises purchased during the year was for 21 years. The cost is to be written off over the period of the lease.

(*e*) The Stock on September 30, 1930, was valued at £24,490.

2. R. Russell was allotted 1,000 shares of £1 each (numbered 2001 to 3000) in A B & Co., Ltd., and duly paid all calls with the exception of the final call of 5*s*. per share due on March 1, 1930. Application for payment of the outstanding call proving ineffective, the Secretary was instructed to take the necessary steps in regard to the forfeiture of the shares. The subscribed capital of the Company consisted of 100,000 Ordinary Shares of £1 each, all of which had been issued and fully paid with the exception referred to above.

You are required to—

(*a*) Describe the necessary procedure for forfeiture.

(*b*) Submit the resolution recording the forfeiture in the Directors' Minute Book, and

(*c*) Submit the necessary entries in the Journal, Ledger and Balance Sheet of the Company.

3. The Accounts of the X Y Co., Ltd., for the year ended March 31, 1930, showed a Net Profit of £6,842.

Before arriving at this figure, however, the following items had been charged or credited in the Accounts :—

	£
Pension to late Secretary	100
Directors' Fees	400
Rent of Trade Premises	360
Royalties paid	35
Dividends received	133
Depreciation of Plant and Machinery	240
Amount written off Goodwill	260
Transfer to Reserve	300
Debenture Interest	420
Sinking Fund to repay Debentures	150
Income Tax, Schedule "D"	270
Bank Interest	20
Transfer Fees received	45

From the information given prepare the Company's Income Tax Assessment for the year 1930–31, and state in terms of tax the amount payable by the Company, at the same time indicating when such amount is payable. The agreed Allowance for Wear and Tear of Plant is £120.

4. Adams and Bevan are merchants. After crediting profits for the half-year to July 1, 1929, Adams' Capital in the firm amounted to £3,000 and Bevan's to £2,000. On July 1, 1929, they agreed to take into partnership their senior clerk, Knight, upon the following terms, viz. Knight to bring in £500 as Capital and each partner to be credited with interest on his Capital at the rate of 5 per cent. per annum. All profits (after debiting interest) up to £1,000, are to be shared by Adams and Bevan exclusively, in proportion to the amounts of their respective Capital as at July 1, 1929. All profits in excess of £1,000 are to be shared equally by the three partners. Accounts are to be

prepared and profits and interest credited half-yearly. Knight is to be credited with a salary at the rate of £200 per annum without reference to profits earned. On December 31, 1929, the Profit and Loss Account (after debiting Knight's salary, but before charging interest on partners' Capital) showed a credit balance of £1,500. The partners' withdrawals, upon which no interest need be charged, were: Adams £500, Bevan £400, and Knight £150. Draw up the partners' separate accounts as at January 1, 1930.

CHARTERED INSTITUTE OF SECRETARIES.

Intermediate Examination, June 1931.

[2 hours allowed.]

1. The following balances were extracted from the books of West & Hill, Ltd., General Contractors, at December 31, 1930:—

	£
Preference Share Capital	200,000
Ordinary Share Capital	150,000
Freehold Land and Buildings	110,000
Plant and Machinery	235,000
Loose Tools	15,000
Debtors	114,000
Creditors	65,000
Contracts Invoiced	250,000
Sale of Plant and Machinery	15,000
Purchases, Stores and Materials	79,200
Wages	75,000
Salaries	16,000
Directors' Fees	1,200
Audit and Accountancy Charges	150
Repairs to Plant and Machinery	3,500
Repairs to Buildings	450
Rates and Insurance	4,500
Freight Charges	6,600
Office Expenses	650
Heating and Lighting Charges	3,250
Cash at Bankers'	6,500
Cash in hand	2,000
Stores and Material on hand, January 1, 1930	36,000
Contracts in Progress, January 1, 1930	75,000
Depreciation Account, January 1, 1930	35,000
Reserve Account, January 1, 1930	40,000
Profit and Loss Account, Credit Balance January 1, 1930	29,000

The authorized Capital of the Company was £400,000 divided into 200,000 8 per cent. Preference Shares of £1 each and 200,000 Ordinary Shares of £1 each.

Prepare a Contracts or Trading Account and Profit and Loss Account for the year ended December 31, 1930, and Balance Sheet as at that date, taking note of the following points:

Depreciation on Freehold Buildings to be provided for at the rate of 2 per cent. per annum and on Plant and Machinery at 10 per cent.; £3,000 to be written off Loose Tools, and £1,250 to be reserved for Bad Debts. Stocktaking at December 31, 1930, revealed Stores and Material on hand valued (at cost) at £30,000, the market value of which, however, is 10 per cent. less. Contracts in Progress are valued at £60,000. Payments in Advance on account of Rates and Insurances amount to £750, whilst there are accrued Wages amounting to £1,600 to be provided for.

2. What do you understand by the following terms used in relation to Cost Accounts: Direct Materials; Prime Cost; On-Cost; Selling Cost; Cost of Distribution; Cost of Production; Output?

3. The following items appeared in the Trading and Profit and Loss Account of the X Y Manufacturing Co., Ltd., for the year ended March 31, 1931:—

	£
Wages paid for making and erecting new plant	850
Legal Charges *re* purchase of new premises	50
Income Tax assessed on business premises	40
Patent Royalties	100
Travelling Expenses of Directors	30
Interest paid on loan (*less* Income Tax)	40
Bad Debts	50
Workmen's Compensation Insurance	60
Loss from embezzlement	40
Dividend received from Shares in A B Co., Ltd. (tax deducted)	40
Interest received on £300 5 per cent. War Loan, 1929–47	15
Discounts received	250

Which, if any, of the foregoing items would be disallowed or excluded when preparing a computation of the Company's liability to Schedule "D" Income Tax, 1931–32?

4. East & West, Ltd., a private Company formed to acquire the business of E. East and W. West, was incorporated with a Share Capital of £200,000 divided into 100,000 Ordinary Shares of £1 each and 200,000 6 per cent. Preference Shares of 10*s*. each. The Company was also authorized to borrow up to one-quarter of its nominal capital. It accordingly made an issue of £50,000 6 per cent. Debentures. The assets taken over were as under:—

	£
Freehold Land and Buildings	86,500
Machinery, Plant and Loose Tools	30,000
Railway Wagons, Motors, etc.	14,000
Sundry Debtors	20,000
Cash at Bank	2,000
Goodwill	40,000

Note.—All creditors had been paid.

The vendors were allotted 50,000 Ordinary Shares and the whole of the Preference Shares, the balance of the purchase consideration being paid to them in cash. The remainder of the Ordinary Shares and the whole of the Debentures were subscribed for privately, 10 per cent. being paid on application and

the balance on allotment. Record the entries which should appear in the Company's books relative to the transactions referred to above.

CHARTERED INSTITUTE OF SECRETARIES.

Final Examination, June 1931.

[2 hours allowed.]

1. The Progressive Manufacturing Co., Ltd., was registered on April 1, 1930, with a Nominal Capital of £150,000 divided into 50,000 6 per cent. Preference Shares of £1 each and 100,000 Ordinary Shares of £1 each.

The books of the Company disclosed the following balances at March 31, 1931 :—

	£
Carriage, Dock Dues and Freight (Inwards) . .	4,773
Advertising	1,654
Fuel, Lighting and Water	2,163
Packing Charges	542
Machinery Repairs	177
Stable Expenses	913
Office Expenses, Stationery and Telephone . .	1,022
Ordinary Share Capital Account	50,000
Preference Share Capital Account	50,000
Debentures Account (*Note.*—200 Debentures of £100 each at $4\frac{1}{2}$ per cent. were issued October 1, 1930—Interest payable half-yearly)	20,000
Directors' Salaries	1,500
Buildings Account	903
Machinery and Plant Account	79,200
Goodwill	5,000
Stock on hand, April 1, 1930	38,672
Cash in hand	210
Horses and Carts	720
Purchases	102,664
Purchases Returns	3,748
Factory Wages	12,704
Salaries and Travellers' Commission	10,691
Rents, Rates, Taxes and Insurance	3,173
Sales	174,493
Sales Returns	6,619
Discount Account (Debit Balance)	2,762
Bad Debts written off	203
Legal and Accountancy Charges	218
Debtors per Sales Ledger	20,634
Creditors per Bought Ledger	4,660
Cash at Bank	5,784

Before closing the books, the following adjustments are necessary :—

	£
(1) Telephone Rent paid in advance	25
(2) Travellers' Commission Owing .	342
(3) Rent Due	79

		£
(4)	Insurance Unexpired	541
(5)	Reserve for Discounts on Sundry Debtors	500
(6)	Depreciation to be provided for, viz.: Machinery and Plant—5 per cent. Horses and Carts—£214.	

The Stock on hand at the end of the year was valued at £34,839. The Directors decide to write off the whole of the Buildings Account and to transfer £7,000 to Reserve Account from the profits of the year. You are required to prepare a Trading and Profit and Loss Account for the year ended March 31, 1931, and Balance Sheet as at that date.

2. Distinguish between the following groups of Cost Accounts: Operating Costs; Process Costs; Single Costs; Terminal Costs; Multiple Costs.

Mention one type of business or undertaking to which each group is applicable.

3. The Profit and Loss Account of a Company owning its own premises assessed at £3,234 showed a net profit for the year ended December 31, 1930, of £9,253, in arriving at which the undermentioned items had been charged or credited:—

	£
Directors' Fees	1,750
Income and Property Tax	1,487
Interest on Loans paid	200
Repairs to Machinery	289
Depreciation of Buildings	100
Depreciation of Plant and Machinery	182
Depreciation of Fixtures	95
Bank Interest received	125
Subscriptions and Donations	75
Dividends received from Investments	96
Interest on £3,000 5 per cent. War Loan	150

Wear and Tear Allowance on Machinery has been agreed with the Inspector at the rate of 7½ per cent. The written down value of this item brought forward from 1930–31 was £2,430. The Asset was increased during the year by £280. Prepare a computation of the Company's liability to Schedule "D" Income Tax for 1931–32 and state the amount of tax payable, assuming there to be no change in the present rates of tax.

4. The "B" Co., Ltd., went into voluntary liquidation on September 30, 1930. Its assets appeared in the books as follows:—

	£
Cost of Properties	150,000
Liquid Assets	22,000

Its liabilities were £25,000 and its Share Capital (in fully paid up Ordinary Shares of £1 each) £200,000. The assets were sold to the "C" Co., Ltd., for £130,000, payable as to £100,000 in shares of that Company of £1 each (credited with 16*s.* 8*d.* per share paid up) and as to the balance in cash which permitted of the payment of the liabilities and the costs of liquidation which amounted to £5,000. You are required to show the closing entries in the books of the "B" Co.

THE ASSOCIATION OF CERTIFIED AND CORPORATE ACCOUNTANTS.

INTERMEDIATE EXAMINATION, June 1930.

I.

BOOK-KEEPING AND ACCOUNTS.

[3 hours allowed.]

1. On April 1, 1928, Marie and Bright, Ltd., was incorporated for the purpose of taking over, and carrying on, a business as from that date. For the year ended December 31, 1928, the total turnover amounted to £50,000, namely, from January 1 to March 31 £10,000, and £40,000 for the remaining nine months of the year. The accounts for the whole year showed a gross profit of £15,000 and a total expenditure for the year of £9,900. The expenditure included Directors' remuneration amounting to £300. What portion of the profit should be regarded as being earned prior to incorporation, taking turnover as a basis, and what is the amount of the profit subsequent to incorporation?

2. From the following figures and details relating to the B.J. Investment Trust, Ltd., prepare accounts showing the net profit for the year ended December 31, 1929, and also the profit available for transfer to the Profit and Loss Account, together with Balance Sheet at December 31, 1929:—

		£	*s.*	*d.*
Directors' Fees and Commission		6,650	0	0
Gross Profit to December 31, 1929		157,310	0	0
General Expenses		15,140	0	0
Income Tax		30,000	0	0
Capital Account—500,000 shares of £1 each		500,000	0	0
Special Reserve Account at December 31, 1928		56,000	0	0
General Reserve Account at December 31, 1928		88,000	0	0
Cash at Bank and in hand		81,200	0	0
Investments at cost or under—				
Quoted Securities		493,050	0	0
Unquoted Securities		13,500	0	0
Subsidiary Companies—				
(*a*) Shares acquired for re-sale at cost or under		253,000	0	0
(*b*) The Electro Trust, Ltd.:—				
Shares at cost or under	£63,000			
Loan	42,000			
		105,000	0	0
Secured Loans		61,000	0	0
Secured Loan from Bankers		250,000	0	0
Sundry Creditors		40,000	0	0
Unclaimed Dividend		100	0	0
Profit and Loss Account Balance at December 31, 1928		40,150	0	0
Interim Dividend		15,000	0	0
Sundry Debtors		6,600	0	0
Freehold Property at cost		47,000	0	0
Furniture, Fixtures, etc., at cost (less Depreciation)		3,920	0	0
Amount voted to a Hospital Radium Fund at the last General Meeting		500	0	0

There are contingent liabilities respecting calls not yet due amounting to £10,570.

Reserve £8,000 for Income Tax. £12,000 is to be transferred to Special Reserve Account and £37,000 to General Reserve Account.

In addition to the remuneration shown in the foregoing particulars the Directors have received from Subsidiary Companies fees amounting to £750.

3. The D.P.F. Colliery Co., Ltd., agreed to purchase wagons on the hire purchase system for £4,600. £600 was paid when the wagons were acquired on January 1, 1925, and the balance was to be paid by annual instalments of £800, plus interest at 5 per cent.

Draft the various ledger accounts in the books of the Colliery Company showing the details—to completion—of this transaction.

The Colliery Company depreciate the wagons each year by 10 per cent. on the original cost.

4. What is the purpose of a Trial Balance? To what extent is a Trial Balance effective and to what extent is it not effective?

5. What do you understand by "Goods on Sale or Return"? State how this class of goods should be dealt with in the books of a concern, and at the end of the financial year how such should be treated for Balance Sheet purposes.

6. A large departmental Store decided to allocate to each department 10 per cent. of what would be the net profit of each department after such bonus of 10 per cent. had been deducted. This bonus was to be divided as to two-thirds between the assistants and one-third to the buyer. Four of these departments and the profits after charging all proper expenses but before dealing with the bonus were as follows:—

	£	s.	d.
Boot and Shoe Department	1,395	7	0
Glove Department	1,119	5	0
Ironmongery Department	1,564	4	0
Toy Department	915	4	0

Prepare a statement showing the bonus payable to the assistants and the buyer in each department and the balance of profit remaining thereafter.

7. The following particulars relate to a retired Army officer who asks you to prepare an Income and Expenditure Account for the year ended December 31, 1928, and a Balance Sheet at that date:—

	£	s.	d.
Investments purchased during the year	625	0	0
Investments sold during the year	750	0	0
Investments held at December 31, 1928, on which dividends have been received at 5 per cent. (less tax) during the year	4,500	0	0
Mortgages at 5 per cent. on which interest has been received during the year	5,000	0	0
Directors' Fees received	425	0	0
Household Furniture, etc., at January 1, 1928	1,000	0	0
Cash at Bank on Deposit Account at January 1, 1928	1,500	0	0
£375 and interest £62 10s. has been withdrawn during the year.			

	£ s. d.
Cash at Bank on Current Account at January 1, 1928	160 0 0
Cash at Bank on Current Account at December 31, 1928	150 15 0
Paid in respect of action for damages and law costs	1,444 15 0

Depreciate Furniture, etc., by 10 per cent.
Any balance not accounted for to be regarded as Personal Expenditure.

8. I. Rally was a Retail Tobacconist and also resided on the premises. He had not kept his books on the double entry principle nor had he balanced his Cash Book, but you are able to ascertain the following particulars :—

	January 1, 1929. £ s. d.	December 31, 1929. £ s. d.
Cash in hand	3 15 0	5 0 0
Cash at Bank	100 0 0	150 0 0
Sundry Debtors	175 0 0	250 0 0
Sundry Creditors	341 5 0	375 0 0
War Loan .	625 0 0	625 0 0
Stock-in-Trade	250 0 0	187 10 0

Transactions during 1929 :—

	£ s. d.
Salaries	150 0 0
General Trade Charges	350 0 0
Stationery and Wrapping Paper . .	87 10 0
Rent and Rates	70 0 0
Lighting, etc.	25 0 0
Cash Receipts	3,125 0 0
Payments through Bank and by cash for goods	2,000 0 0
Payments into Bank—Business . .	1,875 0 0
Payments into Bank—Personal . .	25 0 0
Payments out of Bank—Business . .	1,525 0 0
Payments out of Bank—Personal . .	325 0 0
Personal Cash Payments . . .	91 5 0
Stock taken for personal use . . .	14 0 0

You are required to prepare accounts for the year ended December 31, 1929, and Balance Sheet at the latter date.

II.

Partnership and Executorship Accounts.

(Partnership Questions only.)

[2 hours allowed.]

1. A and B were in partnership sharing profits and losses as to A two-fifths and B three-fifths. At December 31, 1928, their Capital Accounts stood at—A, £2,000 and B, £2,000, while the credit balances on their Current Accounts were—A, £210 and B, £406. A died on March 31, 1929, leaving his Capital in the business to B. To date of death A had drawn £100 and interest at the rate of 10 per cent. per annum on his

Capital was to be credited in lieu of profits (to date of death.) In July 1929, B paid to A's executors the amount due on A's Current Account. The profits for the year ended December 31, 1929, amounted to £1,160, and B's drawings for the year were £540.

Show how the Capital and Current Accounts should appear on the Balance Sheet at December 31, 1929.

2. On June 30, 1929, the Balance Sheet of Young and Zero was as follows:—

Liabilities.	£	*Assets.*	£
Sundry Creditors .	10,000	Cash at Bank .	5,000
Partners' Drawing Accounts . .	5,000	Sundry Debtors .	15,000
Partners' Capital Accounts . .	25,000	Stock-in-Trade .	7,500
		Fixtures, Fittings, etc. . . .	2,500
		Machinery and Plant	10,000
	£40,000		£40,000

There are four departments in connection with the business, namely, Mail, Town, Country and Foreign, and while it is not practicable for the Stock to be taken until December 31, 1929, an interim account is required at September 30, 1929.

From the following particulars you are required to prepare the four departmental accounts and afterwards to draw up a General Trial Balance :—

Department.	Sundry Expenses.	Purchases.	Sales.	Departmental Charges.
Mail . .	£2,500	£3,000	£6,000	£1,000
Town . .	3,500	2,500	3,500	750
Country .	1,000	2,000	3,000	350
Foreign .	500	1,000	500	300

The rate of profit on Sales in each department is to be taken as Mail 40, Town 30, Country 25, and Foreign 20 per cent. respectively. The general, or indirect, expenses are £1,000; partners' drawings £1,000; interest on Capital 5 per cent. per annum. Depreciate Machinery and Plant at the rate of 20 per cent. per annum, and Fixtures and Fittings at the rate of 10 per cent. per annum. The Debtors at September 30, 1929, amount to £8,500 and the Creditors to £7,506 5*s.*, while the Cash at Bank is £9,100, which is arrived at as follows :-

	£	*s.*	*d.*	£	*s.*	*d.*
To Balance . . .	5,000	0	0			
,, Sundry Debtors . .	19,500	0	0			
				24,500	0	0
By Sundry Creditors .	10,993	15	0			
,, Direct Expenses .	2,400	0	0			
,, Indirect Expenses .	1,000	0	0			
,, Drawings . . .	1,000	0	0			
,, Interest on Loan .	6	5	0			
				15,400	0	0
				£9,100	0	0

3. Upon the death of a partner how should the amount due to such deceased partner's estate be shown in the books of the firm ?

4. (*a*) What is the difference between partnership and co-ownership ? (*b*) In what circumstances, if any, does profit-sharing not constitute a partnership ?

THE ASSOCIATION OF CERTIFIED AND CORPORATE ACCOUNTANTS.

FINAL EXAMINATION, June 1930.

PRACTICAL ACCOUNTING, AND METHODS AND MACHINERY OF BUSINESS.

[3 hours allowed.]

1. From the following Trial Balance of the books of the Home Building Society prepare Balance Sheet as at January 16, 1930, with relative Profit and Loss and Appropriation Accounts for year ending that date :—

	£	£
Share Capital—Ordinary paid		117,788
,, ,, Preference		560
Interest accrued on Capital		5,287
Mortgage Securities	222,081	
Property (Offices and Garage)	3,056	
Reserve Fund		2,057
Property Reserve Account		2,686
Depositors Account		82,456
Bank		8,673
Interest on Deposits, Bank and Preference Shares	3,374	
Interest on Mortgages		10,787
Insurance Commission		227
Entry Fees		334
Discount on payments in advance	22	
Forfeited Profits		109
Fines		86
Printing and Stationery	239	
Advertising and Commission	387	
Income Tax	576	
Management, Salaries and Expenses	1,326	
Postages, Lighting and Sundries	237	
Profit and Loss Account—Balance from 1928–29		4,367
Interest to Shareholders, 1928–29	3,411	
Directors' Fees, 1928–29	63	
Audit Fees, 1928–29	115	
Interest to Shareholders in Sections 19 and 23, 1929–30	140	
Interest to advanced Shareholders, 1929–30	40	
Office Furniture and Fittings	176	
Sundry Balances—(*a*) Fines	51	
,, ,, (*b*) Entry Fee	23	
,, ,, (*c*) Surveys	64	
,, ,, (*d*) Insurance	12	
Cash on hand	24	
	£235,417	£235,417

Provide in the Accounts for—

	£
(1) Interest accrued on Mortgages	894
(2) Interest accrued on Deposits and Bank	803
(3) Interest paid in advance on Mortgages	58
(4) Transfer to Reserve Fund	541

2. A loan obtained four years ago is repaid with interest which has accumulated half-yearly at 6 per cent. £1,253 14*s*. 9*d*. was the sum repaid. What was the amount of the original loan?

3. The Abstract Profit and Loss Account for the year ending November 30, 1929, of the Amalgamated Trading Corporation Limited, is :—

	£		£
May 1, 1929—		Dec. 1, 1928—	
To Final Dividend on Preference Shares (less Tax)	150,255	By Balance brought forward	1,393,859
,, Dividend on Ordinary Shares (less Tax)	493,474	Nov. 30, 1929—	
,, Transferred to Special Investment Reserve Account	100,000	By Profit on Trading for year	1,003,420
	£743,729		
(as resolved by General Meeting on April 22, 1929)			
Oct. 31, 1929—			
To Interim Dividend on Preference Shares (less Tax)	150,370		
Nov. 30, 1929—			
To Debenture Interest (less Tax) for year	72,733		
,, 1/30th written off cost of Debenture Issue	2,977		
,, Balance	1,427,470		
	£2,397,279		£2,397,279

The Directors recommend the balance of profits be appropriated as follows :—

	£
Final Dividend on Preference Shares (less Tax)	150,593
Dividend on Ordinary Shares (less Tax)	460,278
Transfer to Special Reserve Investment Account	50,000

The Preference Share Dividend is equal to 6 per cent. per annum, and the Ordinary 9 per cent. per annum, and the special Reserve Investment Account will be increased to £550,000. Excellent results have been obtained from the Foreign and

Subsidiary companies of the Corporation, but only the interim dividends paid by these companies have been included in the Accounts under review. Four Directors, Messrs. A, B, C and D, retire at this time but are recommended for re-election, as also are the Auditors, Messrs. X, Y and Z. The Trading results for the year to November 30, 1929, are better than the previous year, and it is expected the year to November 1930 will show further improvement.

Frame the Report of the Directors to be submitted to the Fifth Annual General Meeting of Shareholders to be held in London on Thursday, May 22, 1930.

4. R, S and T enter into partnership and purchase the Goodwill of A's business for £9,000, which is payable £5,000 on April 1, 1929, and £4,000 in five equal Bills of Exchange for one, two, three, four and five years from April 1, 1929. They agree to pay interest of 6 per cent. per annum on the unpaid balance from year to year. The Capital subscribed by each partner on April 1, 1929, is—R, £3,000 and S and T, £1,500 each, profits and losses being shared in ratio to Capital, after charging a salary of £1,000 to R, and 6 per cent. per annum interest on Capital Accounts. The profit for year to March 31, 1930, is £1,700 after charging R's salary but before charging interest on Partners' Capital and to A on the balance of the Purchase Price. It is agreed that the Bill for £800 due April 1, 1930, shall be met out of profits.

Show Journal and Cash Book entries for—(1) Opening Ledger Accounts as at April 1, 1929; (2) Closing Ledger Accounts as at March 31, 1930; (3) Recording the retrial of the Bill due April 1, 1930.

5. In the books of a Limited Company is an unclaimed Dividend Account with a balance of £4,200. The Directors propose transferring this balance to the credit of Profit and Loss Account. Is such a proposal within the powers of the Directors?

Partnership Law and Accounts.

[2 hours allowed.]

1. State concisely ten instances in which a partnership may be dissolved, differentiating between the grounds for a dissolution by the Court and otherwise.

2. Heck, Doe and Teen, who were partners sharing profits as to one-half, one-third and one-sixth, respectively, decided to dissolve partnership, and efforts to sell the business as a going concern having proved unsuccessful, it was agreed to dispose of the Assets individually as the opportunity occurred. The following balance sheet shows the position as at December 31, 1929:—

Liabilities.			*Assets.*	
Capital:—	£	£		£
Heck .	5,000		Cash . . .	1,000
Doe .	4,000		Sundry Debtors .	8,000
Teen .	1,000		Bills Receivable .	2,000
		10,000	Stock-in-Trade .	1,000
Sundry Creditors		2,000		
		£12.000		£12.000

	£
The Sundry Debts were sold on January 31, 1930, for	7,000
The Bills Receivable were discharged on March 15, 1930, for	1,800
The Stock-in-Trade was disposed of on April 1, 1930, for	500

Show how the cash should be distributed as between the partners.

3. X, Y and Z were equal partners in a manufacturing concern, and on April 5, 1930, the partnership was dissolved and X retired, D taking his place and entering into a partnership agreement with Y and Z.

The profits for the previous years were as follows :—

	£
To April 5, 1927	3,400
,, ,, 1928	4,600
,, ,, 1929	4,100
,, ,, 1930	3,000

You are required to state the normal Income Tax assessment for the years 1927–30 and show how such assessments could be adjusted during the various years.

4. Brown, White and Black were equal partners, and it was mutually agreed that owing to advancing age Brown and White should retire and allow their Capitals to remain in the business on the following terms :—Brown was to receive a rate of interest varying with the net profits; White agreed to accept 5 per cent. per annum. During the year following the change a fair profit was earned, but the subsequent year's accounts showed a heavy loss, and in consequence thereof Black was adjudicated bankrupt. State briefly how Brown and White will rank in respect of their loans.

5. William and John Shaw, who carry on business as printers and stationers, share profits and losses equally. At March 31, 1930, their position was as follows :—

	£	s.	d.
Stock at March 31	369	0	2
Ink and Oil	14	0	4
Wages :			
Employees	670	19	10
Partners	836	4	0
Commission	39	18	4
Outwork :			
Binding, etc.	282	3	1
Blocks	18	19	8
Purchases	957	14	6
Motive Power	15	1	9
Sales	3,374	7	0
Rent, Rates and Insurance	146	9	8
Dividends on Shares (credit balance)	2	4	10
Amounts received in respect of Bad Debts previously written off	45	10	3
Lighting and Heating	14	8	6
Carriage	10	13	0
Stamps and Telephone	31	4	4
Packing Materials	9	16	3
Repairs and Renewals	18	8	1

	£	s.	d.
Bank Charges	15	9	0
Sundry Creditors	584	7	1
William Shaw—Capital Account . . .	851	16	0
John Shaw—Capital Account	851	16	0
Cash in hand	5	3	0
Cash at Bank	45	12	2
Investments	100	0	0
Fixtures and Fittings	45	0	0
Accountancy Charges	19	19	0
Travelling Expenses	57	8	8
Incidental Trade Expenses	58	10	9
Sundry Debtors	1,071	11	6
Reserve for Discounts	25	0	0
Reserve for Bad Debts	50	0	0
Plant and Machinery	847	1	11
Bad Debts	49	17	3
Discounts allowed	56	15	10
Discounts received	22	9	5

On September 30, 1929, a Linotype Printing Machine was purchased for £950 cash, the money having been borrowed from John Stuart (a friend of the partners) on the understanding that one-quarter of the net profit disclosed by the yearly Profit and Loss Accounts (before charging partners' salaries, but after allowing 10 per cent. per annum interest on the loan outstanding at the end of each financial year) should be applied in reduction of the loan.

William Shaw is also a Director of The Newport Paper Mills, Ltd., and during the accounting period under review purchases of paper amounting to £300 (cost price) were received from this Company, and it is mutually agreed between the partners and the Company that a bonus of 20 per cent. on this sum shall be allowed to the two partners, such sum to be credited to them as follows: William Shaw one-quarter share and John Shaw three-quarters share. The works premises valued at £3,000 were formerly owned by their father, but on January 1, 1930, he conveyed the property to the two sons by deed of gift, on condition that an annual sum of £150 in lieu of rent is paid to him during his lifetime. The sons have decided to treat this asset as partnership property. The Stock at March 31, 1930, was £367 11*s.* 4*d.* Write £85 off Plant and Machinery.

Prepare a Trading and Profit and Loss Account for the year ended March 31, 1930, and Balance Sheet as at March 31, 1930.

THE ASSOCIATION OF CERTIFIED AND CORPORATE ACCOUNTANTS.

INTERMEDIATE EXAMINATION, December 1930.

I.

BOOK-KEEPING AND ACCOUNTS.

[3 hours allowed.]

1. Fordburg, Ltd., and Sidd & Co., Ltd., agree to amalgamate as from December 31, 1929, on which date their respective Balance Sheets were as follows:—

FORDBURG, LTD.

BALANCE SHEET, *December* 31, 1929.

Liabilities.	£	*Assets.*	£
Share Capital—		Cash in hand .	50
25,000 shares of £1		Cash at Bank .	450
each fully paid .	25,000	Sundry Debtors .	6,000
Sundry Creditors .	1,000	Stock-in-Trade .	7,000
Reserve Account .	4,000	Plant and Machinery	4,500
Profit and Loss Account	1,000	Freehold Premises	10,000
		Patents and Patterns	3,000
	£31,000		£31,000

SIDD & CO., LTD.

BALANCE SHEET, *December* 31, 1929.

Liabilities.	£	*Assets.*	£
Share Capital—		Cash in hand . .	100
80,000 shares of £1		Cash at Bank . .	3,400
each, fully paid .	80,000	Sundry Debtors . .	22,500
Sundry Creditors .	3,000	Stock-in-Trade . .	15,000
Reserve Account .	7,500	Plant and Machinery .	12,000
Profit and Loss Account	2,500	Freehold Premises .	30,000
		Patents and Patterns .	10,000
	£93,000		£93,000

Draw up the Balance Sheet of the new Company, Fordburg, Sidd and Co., Ltd., which was incorporated to take over the amalgamated concern, and state the proportional number of shares in the new Company which will be allotted to the shareholders of the old Companies.

2. From the following details prepare Liquidator's Summary of Accounts of the Ladram Bay Co., Ltd. :—

Share Capital :—

5,000 7 per cent. Cumulative Preference Shares of £1 each, fully paid, preferential as to Dividends and Capital; preference dividend in arrear for two years at date of winding-up.

10,000 Ordinary Shares of £1 each, 15*s*. called and paid up.

10,000 Ordinary Shares of £1 each, 17*s*. 6*d*. called and paid up.

The General Assets realized	£5,643
Sundry Debtors produced	801
Legal Charges	212
Liquidator's Remuneration and Expenses . . .	509
General Liquidation Expenses	78
Unsecured Creditors amounted to	1,895

The calls on shares made by the Liquidator were duly paid.

3. From the following details relating to the Leeds Branch of a professional body prepare Income and Expenditure Accounts of Members' and Students' Sections for the year ended December 31, 1929, and General Balance Sheet at the latter date :—

MEMBERS' SECTION.

	£	s.	d.
Grant from Parent Society	256	7	0
Members' Subscriptions	210	0	0
Printing, Stationery and Advertising	60	13	9
Incidental Expenses, Postages, etc.	18	15	9
Expenses of Annual Dinner and other Social Functions, *less* Receipts	84	14	0
Clerical Services, Lighting, Heating, etc.	180	0	0
Hire of Rooms	40	4	0
Delegates' Expenses	18	3	9
Bank Charges	1	10	0
Amount contributed to Students' Section	9	15	9

STUDENTS' SECTION.

	£	s.	d.
Grant from Parent Society	103	7	3
Students' Subscriptions	50	0	0
Printing, Stationery and Advertising	5	13	6
Incidental Expenses and Postages	28	18	0
Social Functions	13	5	3
Clerical Services, Lighting, Heating, etc.	75	0	0
Hire of Rooms	35	9	6
Lectures	37	7	6

GENERAL.

	£	s.	d.
Amount due to Hon. Treasurer	104	7	3
Surplus at December 31, 1928	455	18	3
Proportion of Grant due from Parent Society	170	9	9
Library, as valued at December 31, 1928	111	17	3
Expended on Library during the year	2	5	0
Cash at Bank	107	10	9
Investments at Cost	162	15	0
Amount due from Students' Section	25	7	0
Members' Section—			
Depreciate Library Account by	22	7	0
Subscriptions paid in advance	10	0	0
Reserve for Printing, etc.	3	0	0
Students' Section—			
Reserve for Printing, etc.	2	0	0

4. The following details relate to a dealer in certain domestic appliances who disposes of them on the hire purchase system. Assuming his gross profits to be 25 per cent., prepare Trading Account for the year ended September 30, 1930, and Balance Sheet (necessarily meagre) at the latter date.

	£
October 1, 1929 :—	
Stock out on hire at hire purchase price	2,000
Stock on hand, viz. at Shop	250
Instalments overdue—customers still paying	150
September 30, 1930 :—	
Stock out on hire, at hire purchase price	2,300
Stock on hand, viz. at Shop	350
Instalments overdue—customers still paying	250
Purchases (paid for by cash) during the year	3,000
Cash received (instalments) during the year	4,000

5. A Private Limited Company arranged with its Bankers for a loan of £12,000, and as collateral security the Company issued Debentures for £16,000 and deposited them with the Bankers.

State what entries should be made in the financial books of the Company and how the transaction should appear in the Company's Balance Sheet.

6. The Seaton Trading Company, Ltd., of Liverpool, established a factory in India. The Company remitted to its Indian factory during the year 1929 cash amounting to £7,500, and the manager in India drew bills on the Company during the year for £2,500 which were accepted.

At December 31, 1929, it was ascertained that the Indian factory had made a loss of £1,800 and this was transferred to the Liverpool office.

Give the entries in the Liverpool books necessary to record these transactions.

7. State what would be your procedure in order to locate the difference in a Trial Balance where the sides fail to agree, after the books have been fully checked.

8. The Exford Tool Company, Ltd., commenced trading on January 1, 1929. At December 31, 1929, their Trial Balance was as follows :—

	£	£
Share Capital, issued and paid up—		
60,000 Ordinary Shares of £1 each		60,000
£12,000 5 per cent. Debenture Stock		12,000
Freehold Premises	30,000	
Machinery and Plant	25,000	
Sundry Creditors		2,000
Sundry Debtors	9,000	
Travelling Expenses	2,500	
Cash at Bank	5,000	
Interest on Debenture Stock paid, *less* tax	480	
Wages	23,000	
Purchases	75,000	
Preliminary Expenses	800	
Directors' Fees	520	
Discounts	300	
General Trade Charges	3,000	
Sales		100,600
	£174,600	£174,600

Prepare Trading and Profit and Loss Account and Balance Sheet. Stock at December 31, 1929, amounted to £8,000. Write off the Preliminary Expenses £800, depreciate Freehold Premises by £600 and Machinery and Plant by £2,000.

II.

PARTNERSHIP AND EXECUTORSHIP ACCOUNTS.

(Partnership Questions only.)

[2 hours allowed.]

1. Axe was in practice as a certified accountant, and on December 31, 1929, his position was as follows :—

Assets.

	£
Cash at Bank	590
Sundry Debtors	1,420
Furniture, Office Appliances, etc.	380
Estimated value of Uncompleted Work . . .	410
Sundry Creditors	100

For the past three years Coe had been his managing clerk, and, as from January 1, 1930, Axe agreed to take him into partnership on the following terms: Coe is to introduce Capital equal to one-third of the amount shown as being Axe's Capital at December 31, 1929; he is to pay Axe a premium equal to a three years' purchase of quarter share of the net profits based on the average for the last three years. The net profits for three years were:—

	£
Year ended December 31, 1927	1,800
,, ,, ,, 1928	1,400
,, ,, ,, 1929	1,600

Further, Axe guaranteed that Coe's share of the profits should not be less than such quarter share based on the average of the years in question. The partners are to receive 5 per cent. interest on Capital before distributing profits, viz. Axe three-quarters and Coe one-quarter.

(*a*) Set out the opening Balance Sheet of the new firm; (*b*) Set out an account showing the distribution of the profits at December 31, 1930, these amounting to £1,580, before charging interest on Capital.

2. Alton, Bowers and Crann became partners on January 1, 1928, but did not execute an express agreement. Crann brought in no capital, but Alton introduced £11,250 and Bowers £5,250 More cash being necessary, Crann lent to the firm on June 30, 1928, the sum of £7,500 at 5 per cent. interest. The trading results, before charging interest, were: Year ended December 31, 1928—Profit £3,825; Year ended December 31, 1929—Loss £1,345 17*s*. 6*d*.

Each partner drew £750 on account of profits during 1928 and 1929. On December 31, 1929, Alton died, and it was decided to dissolve the partnership immediately, the position then being—Amount due to Sundry Creditors, £2,512 10*s*.; Assets, standing at £24,491 12*s*. 6*d*., realised £14,100 net.

Prepare accounts showing the result of the winding-up.

3. (*a*) X, Y and Z were in partnership, carrying on business as House Furnishers. Z, for his sole benefit, obtained a renewal of the lease of the premises in which the business was being carried on. Was he justified in taking this course, and, if not, what remedies, if any, have the other partners?

(*b*) C, D and E were partners in a trading concern. E sold certain goods in the name of the firm, but made a secret profit, and this was eventually discovered by C and D. What are the rights of C and D in such an instance?

4. What is a limited partnership? Discuss the advantages and disadvantages of this form of partnership.

THE ASSOCIATION OF CERTIFIED AND CORPORATE ACCOUNTANTS.

FINAL EXAMINATION, December 1930.

PRACTICAL ACCOUNTING, AND METHODS AND MACHINERY OF BUSINESS.

[3 hours allowed.]

1. Wood Bros., Timber Importers, Hull, send the following Cash remittances during 1930 to their buying agents in Copenhagen :—

1930.	£	Realising in Kroner.
January 15 . . .	4,000	73,000
February 20 . .	6,000	103,000
April 28 . .	20,000	340,000
June 10 . .	30,000	510,000
August 31 . . .	10,000	180,000
	£70,000	1,206,000

The agents rendered a Cash Account as follows on October 31, 1930 :—

	Kr.	Kr.
Received from Hull		1,206,000
Paid for May Shipment	252,000	
,, June Shipment	180,000	
,, July Shipment	216,000	
,, August Shipment . . .	324,000	
,, Carriage on May Shipment .	90,000	
,, Shipping Charges on June Shipment	72,000	
Balance on hand October 31, 1930 . .	72,000	
	1,206,000	1,206,00(

Wood Bros. paid freight and insurance on each of the shipments—May, £7,000; June, £1,000; July, £6,000; August, £9,000. The timber is sold for Cash and realised as under: May Shipment, £24,280; June, £12,200; July, £26,240; August, £37,360.

Open Ledger Accounts in the books of Wood Bros. and enter the foregoing transactions. The buying Agents are entitled to a buying commission of 2 per cent. on the cost price of timber purchased by them, and also 10 per cent. on the Net Profit on each shipment. Assume an average rate of exchange of 18 Kroners to the £1.

2. You act as Secretary to a Limited Company which has suffered considerable losses through bad debts, depreciation in stocks of raw materials and the fall in value of investments. The Directors are considering the advisability of revaluing certain of the fixed assets belonging to the Company and applying any surplus towards meeting such losses.

Frame a report explaining your views to the Board of Directors.

3. A leading daily newspaper in its financial notes recently

stated: "The gilt-edged market on the whole maintained a firm tone under the influence of cheap money, favourable movements in sterling, and a strong Bank of England return."

Explain in greater detail the exact meaning of this sentence.

4. What is the present value at 5 per cent. compound interest of £1,000 due four years hence?

5. From the following Trial Balance of the books of the Modest Investment Trust, Ltd., prepare in proper form Balance Sheet as at October 31, 1930, with relative Revenue Account for the year ending that date:—

	£	s.	d.	£	s.	d.
Capital—Authorised and Issued				50,000	0	0
Capital Reserve Account				5,000	0	0
Investments at cost price	76,930	16	11			
Sundry Debit Balances	2,370	7	2			
Preliminary Expenses	835	17	0			
Loans (Temporary)				5,875	0	0
Bank				6,020	0	0
Sundry Credit Balances				2,760	19	4
Dividend and Interest				4,865	0	0
Interest on Loans and Bank	345	7	7			
Underwriting Fees and Commissions				1,380	8	10
Management Expenses	730	0	1			
Printing, Stationery, etc.	75	9	6			
Transfer Fees					15	0
Realisation Account				5,045	3	1
Revenue Account				340	12	0
	£81,287	18	3	£81,287	18	3

Provide £150 outstanding interest on the Bank and Loan Accounts, write off the Preliminary Expenses against Realisation Account, the balance remaining on this Account to be utilized in writing down Investments. The market value of the investments at October 31, 1930, amounted to £53,461 2*s.* 10*d.*

Partnership Law and Accounts.

[2 hours allowed.]

1. A and B purchased a number of coaches, which they ran principally for their own pleasure, and in circumstances which rendered the whole project unprofitable. Both parties described themselves as partners, and, when the venture came to an end, A demanded a division of the whole of the assets, and denied that a partnership existed, stating that it was simply a case of co-ownership. State, briefly, the ruling on this point, and name any case bearing on the matter.

2. Flax and Silk entered into a partnership agreement, for a period of five years, whereby, if either partner died during the term of the said partnership, the survivor should be entitled exclusively to the business and goodwill of the firm. On the expiration of the period, the partnership was still carried on, but shortly afterwards Flax gave written notice to dissolve the partnership, but died before Silk had received the notice in

the course of post. In the circumstances, what Section of the Partnership Act is applicable, and with what effect? Quote any case dealing with the principle involved.

3. What are the general rules of administration as to joint and separate estates of insolvent partners? Are there any circumstances in which a creditor of a firm may, in the first instance, prove his debt against the separate estate of a partner?

4. Smith and Hickman, who trade as china and hardware merchants, are desirous of dispensing with their Purchase Ledger and Day Book. On investigation, you ascertain that they have approximately 1,000 trade accounts in the Purchase Ledger, and that the whole of the accounts are settled monthly with the exception of a contra account with Mr. Smith's brother, who carries on a similar class of business. An arrangement has been made in this respect whereby the monthly balance due to or by the brother is carried forward, and discharged in cash at the end of every quarter.

You are required to submit a ruling of a Purchase Invoice Analysis Book, together with six specimen entries, and explain, briefly and concisely, how you would write up such book, giving careful attention to the question of returns.

5. Jackson and Shore carried on business as gentlemen's outfitters, sharing profits and losses as to two-thirds and one-third respectively. On July 1, 1930, it was mutually agreed to dissolve the partnership, and the following was the state of affairs as at the date of dissolution:—

BALANCE SHEET, *July* 1, 1930.

Liabilities.	£	£	*Assets.*	£
Sundry Creditors—			Cash in hand . .	50
Ordinary .	5,400		Cash at Bank . .	560
Preferential .	200		Sundry Debtors .	2,650
		5,600	Stock-in-Trade . .	2,750
Capital Account—			Fixtures and Fittings .	1,100
Jackson . .	2,000		Goodwill . . .	1,990
Shore . .	1,500			
		3,500		
		£9,100		£9,100

The Assets other than the balance at Bank, and the Cash in hand realised £4,505, and the expenses incidental to the dissolution amounted to £190. Before the assets were realised, considerable controversy took place between the partners as to the result of the sale, and it was eventually agreed that in the event of the ordinary creditors not being satisfied in full, Shore would introduce sufficient cash to discharge one-half of the deficiency. In the event of the assets realising more than sufficient to pay the ordinary creditors the whole of their debts, then Jackson was to forgo one-half of the surplus.

Prepare the whole of the accounts necessary to show clearly the results of the above transactions.

THE AUCTIONEERS' AND ESTATE AGENTS' INSTITUTE OF THE UNITED KINGDOM.

INTERMEDIATE AND DIRECT FINAL, 1930.

[2 hours allowed.]

(Questions 1 to 5 are for all Candidates.)

1. What do you understand by: (*a*) "Real Accounts," (*b*) "Legal Tender," (*c*) "Power of Attorney," (*d*) A "Debenture," (*e*) "Ex-dividend." [10 marks.]

2. Explain briefly the nature of the items you would expect to find on the right hand (or "Assets") side of a Company's Balance Sheet. In the case of an accumulated Loss this appears on the right-hand side. How do you explain this? [10 marks.]

3. In "double entry" Book-keeping each transaction has a twofold aspect. In the following cases, say which Accounts you would debit and credit, and why?

(*a*) Received £50 cash as a Loan from John Jones.
(*b*) Sold on credit to W. Smith goods value £100.
(*c*) Allowed to W. Smith £5 discount on payment of his account.
(*d*) Interest £2 10*s*. is paid in cash to John Jones in respect of his Loan.
(*e*) Purchased on credit from Williams & Co., goods value £200 [10 marks.]

4. Rule a form of Cash Book with double columns for the following transactions, assuming that all receipts (whether cash or cheques) are in the first instance entered in the inner column and paid into Bank daily, the total so paid in being extended into the outer column which should agree with the Bank Pass Book.

1930.			£	*s*.	*d*.
Jan.	1.	Balance at Bank	452	3	2
,,	1.	Received cheque of J. Johnson	32	4	10
,,	1.	,, cash Sales	7	3	9
,,	1.	,, cheque of W. Renshaw	47	16	2
		(Paid into Bank, £87 4*s*. 9*d*.)			
,,	2.	Drew cheque for Rent	50	0	0
,,	2.	,, ,, Petty Cash	25	0	0
,,	2.	Received cheque of the Atlas Co.	132	17	9
,,	2.	,, ,, Ford & Co.	46	6	6
		(Paid into Bank, £179 4*s*. 3*d*.)			
,,	3.	Drew cheque for Rose & Walters	26	3	2
,,	3.	,, ,, Arnott & Son	32	17	10
,,	4.	Received for Cash Sales	10	11	9
,,	4.	,, cheque of Smallman & Co.	62	2	4
		(Paid into Bank, £72 14*s*. 1*d*.)			

Rule up the Cash Book and bring down balance. [20 marks.]

5. Explain the difference between a Trading Account and a Profit and Loss Account in a Manufacturer's business, stating the principles which would guide you in deciding into which account the various items should be put. [10 marks.]

For Auctioneering Candidates only.

6. Give a ruling for a Petty Cash Book with analysis columns suitable for an Auctioneer's business, with special attention to the fact that numerous items are paid out on account of Clients and will have to be charged to their accounts. Give six specimen entries. [10 marks.]

7. Show by Ledger Accounts the following transactions:—

Sold by Auction the freehold property known as "The Gables," the property of Major Marshbanks, for £4,000, the purchaser being Capt. Copthorne, who paid a deposit of £400. Charge the usual Commission and £25 for Advertising and Expenses, and show cheque due to Major Marshbanks for the balance of the deposit received on his account. [10 marks.]

8. From the following figures first prepare a Trial Balance and then the Profit and Loss Account and Balance Sheet of John Smith, Auctioneer, as at December 31, 1929:—

Office Salaries, £1,240 3*s*. 2*d*.; Commissions earned, £4,072 16*s*. 10*d*.; Rent and Rates, £452 6*s*. 7*d*.; Cash at Bank (Office Account), £523 2*s*. 9*d*.; Cash at Bank (Clients' Account), £1,249 16*s*. 7*d*.; Office Expenses, £201 14*s*. 6*d*.; Advertising, £211 13*s*. 2*d*.; Printing and Postages, £210 4*s*. 4*d*.; Repairs, £15 4*s*. 3*d*.; Sundry Creditors (Office Accounts), £232 3*s*. 6*d*.; Sundry Creditors (Clients), £1,237 14*s*. 2*d*.; Furniture and Fittings (value), £250; Sundry Debtors, £842 3*s*. 9*d*.; John Smith, Capital Account, £1,000; John Smith, Drawings Account, £1,346 5*s*. 5*d*. [20 marks.]

For Estate Agency Candidates only.

9. Owing to the cutting of a new Arterial Road, the premises of a Draper are being compulsorily acquired. He owns the freehold of his premises, which are assessed for Property Tax at £300 net.

His Accounts for the last three years show an average profit of £1,450, but in arriving at this figure nothing has been charged in any year for Rent of premises; but on the other hand the following amounts have been debited each year before arriving at the profit given, viz.: Interest on Capital, £250; Income Tax, Schedule "A," £60.

Assuming no other premises available in the neighbourhood, what would you claim for loss of the goodwill of the business (exclusive of value of premises, fittings, etc.)? [10 marks.]

10. State briefly the Books of Account and record which are necessary in an Estate Agent's Office, and the uses of each. [10 marks.]

11. A Client asks you to submit an estimate of the profit that could be made by developing his Collinghurst Estate for building purposes, the land having considerably increased in value.

The original cost of the House and 50 acres of ground was £14,500, of which the House and 10 acres of ground adjoining represents £8,500.

An offer has been received from a School to purchase the House and the 10 acres adjoining for £10,000, which has been

accepted, and as regards the remaining 40 acres it is proposed to make roads and sewers, and then sell in building plots, the time taken to complete the scheme being estimated at two years.

The cost of making roads, sewers, and other expenses incidental thereto, is estimated at £8,000, and when completed there will be 38 acres left for sale in plots which are expected to fetch £500 per acre.

Prepare a statement for your Client showing the profit on the proposed scheme, and your comments thereon.

[20 marks.]

THE AUCTIONEERS' AND ESTATE AGENTS' INSTITUTE OF THE UNITED KINGDOM.

INTERMEDIATE AND DIRECT FINAL, 1931.

[2 hours allowed.]

(*Questions* 1 *to* 4 *are for all Candidates.*)

Candidates must take *either* Questions 5, 6 and 7, *or* Questions 8, 9 and 10, but cannot select questions from each of these two sections of the Paper.

1. What do you understand by: (*a*) "Goodwill"; (*b*) "Discounting a Bill"; (*c*) "Minimum Rent"; (*d*) "Lien"; (*e*) A "Negotiable Instrument." [10 marks.]

2. A, B and C start in practice as Auctioneers and Estate Agents on January 1, 1931. A brings into the partnership the following assets, for which he is given credit on his Capital Account, viz.: Office Furniture, £250; Freehold Premises, £1,500; Cash, £250. B brings in cash £1,000 and C brings in cash £1,000. Each is to have 5 per cent. interest on his Capital, and a salary of £500, and the balance of profit is to be divided A ½, B ¼, and C ¼.

At the end of the financial year there is a profit (before charging interest and salaries) of £3,000. A has drawn generally on account of interest, salary and profits £1,000, B £750, and C £800.

Show the division of the £3,000 standing to the credit of Profit and Loss Account, and show each Partner's Drawing Account. [10 marks.]

3. Give a ruling for a "Fees and Commissions Journal" suitable for recording the charges of an Auctioneer and Estate Agent, with four specimen entries of different classes of earnings. [15 marks.]

4. Explain briefly the principles of Double-entry Book-keeping, and state how these are carried out in the Accounts of an Auctioneer and Estate Agent. [15 marks.]

FOR AUCTIONEER CANDIDATES ONLY.

5. State briefly your duties when "clerking" an Auction Sale of Furniture, etc. What records would you keep at the Sale, and what entries are made in the Office Books after the Sale? [10 marks.]

6. Give instructions for keeping the following books in the Office of an Auctioneer, and state their relation to the general system of book-keeping: (*a*) The Cash Book; (*b*) Repository Sales Ledger (for periodical Furniture Sales); (*c*) Auction Sales Ledger; (*d*) Rent Collections Ledger (sometimes called "Landlord's Ledger"). (*Note.*—Specimen rulings are not asked for.) [15 marks.]

7. From the following Trial Balance as at December 31, 1930, prepare the Profit and Loss Account and Balance Sheet of A. Hammer, Auctioneer.

TRIAL BALANCE, *December* 31, 1930.

	£	s.	d.	£	s.	d.
Fees and Commissions				2,502	3	6
Sundry Creditors (Clients)				562	10	4
Sundry Creditors (Office)				235	11	1
Salaries	620	3	9			
Rent and Rates	252	6	7			
A. Hammer, Capital				1,000	0	0
A. Hammer, Drawings	940	0	0			
Office Expenses	196	3	4			
Printing	210	6	3			
Advertising and Boards	394	5	10			
Repairs	13	14	3			
Cash in hand	15	7	7			
Cash at Bank (Office Account)	232	6	9			
Cash at Bank (Clients' Account)	579	4	3			
Office Furniture (value)	100	0	0			
Sundry Debtors	746	6	4			
	£4,300	4	11	£4,300	4	11

[25 marks.]

FOR ESTATE AGENCY CANDIDATES ONLY.

8. In an Estate Agent's office, where there are numerous Weekly Rent Collections, as well as Quarterly, describe the system of Rent Books, Counterfoil Receipt Books, and other records you would require to see that all rents which should be collected for Clients were duly accounted for. What precautions would you take to see that no overdue rents, either weekly or quarterly, were lost sight of? [10 marks.]

9. Give a ruling for a Farm Rent Roll suitable for half-yearly Rents, with four specimen entries, and explain its use. [15 marks.]

10. A Country Estate has a Timber Yard worked by the Owner for which separate Books are kept.

£3,000 Capital is invested in the concern on which 5 per cent. interest is to be allowed, and the Timber Yard pays a Rent to the Estate of £200 per annum.

From the following Trial Balance prepare the results for the year ended December 31, 1930, with Balance Sheet at that date. Write 10 per cent. Depreciation from value of Plant and Machinery, and 20 per cent. from value of Lorries and Tractors.

TRIAL BALANCE, *December* 31, 1930.

	£	s.	d.	£	s.	d.
Cash in hand	15	4	9			
Cash at Bank	210	7	6			
Stock at January 1, 1930	1,582	9	6			
Purchases	1,782	14	3			
Sales				8,487	8	6
Wages	2,951	10	2			
Cartage and Haulage	809	3	1			
Horsekeep	279	19	8			
Saw Mill Expenses	185	18	0			
Insurance	204	7	5			
Proprietors' Capital				3,000	0	0
Proprietors' Drawings	450	0	0			
Sundry Creditors				1,839	1	6
Sundry Debtors	1,642	3	9			
Plant and Machinery	1,200	0	0			
Lorries and Tractors	800	0	0			
Manager's Salary	500	0	0			
Office Salaries	210	10	6			
Repairs	198	4	10			
Rent	200	0	0			
Rates and Licences	103	16	7			
	£13,326	10	0	£13,326	10	0

INDEX

A1 explained, 705
"ABOVE PAR" explained, 708
ACCEPTANCE OF BILL explained, 29, 88, 215
ACCEPTOR OF BILL defined, 215
ACCEPTORS LEDGER (BANK), 508
ACCOMMODATION BILLS, dangers of, 223; explained, 222, 686
ACCOUNT, Books of, 32; definition of, 33
ACCOUNT, CURRENT, see *Current Account*
ACCOUNT DAYS explained, 686
"ACCOUNT RENDERED" defined, 686
ACCOUNT SALES defined, 243; specimen of, 246
"ACCOUNT STATED" defined, 686
ACCOUNTANT, definition of, 686
ACTS OF BANKRUPTCY, cheques presented and, 213; definition of, 570, 687; enumeration of, 457 *note*
ADJUDICATION OF BANKRUPTCY, 450
ADMINISTRATION, Letters of, 687
ADMINISTRATOR, 687
ADVENTURE, see *Joint Adventure*
ADVICE, definition of, 687
ADVICE NOTE, definition of, 687
AFFIDAVIT, definition of, 687
AGENDA BOOK, 342
AGENT, definition of, 688
AGENTS' CREDIT JOURNAL, 547, 550
AGENTS' DEBIT JOURNAL, 547, 550
AGREEMENT, definition of, 688; Hire Purchase, 699
ALLONGE, definition of, 216
AMALGAMATIONS, 342, 688
AMERICAN BANK B/S, specimen of, 512
AMORTIZATION, definition of, 688
ANNUAL GENERAL MEETING, 329
ANNUITIES, definition of, 526, 530, 541, 688
APPLICATION AND ALLOTMENT ACCOUNT, 295–6
APPLICATION AND ALLOTMENT BOOK, 308–9
APPLICATION FORM FOR SHARES, 313–15
APPORTIONMENT, definition of, 689
APPRECIATION, definition of, 689
ARBITRAGE, ARBITRAGEURS, ARBITRATION defined, 689
ARBITRATOR, definition of, 689; in partnership disputes, 257
ARRANGEMENT, DEED OF, see *Deed of Arrangement*
ARTICLES OF ASSOCIATION defined, 283; provisions of, 284; alterations of capital and, 330–3; Table A and, 485, 690
ARTICLES OF PARTNERSHIP, 256
ASSETS, definition of, 12, 138, 690; classification of, 144; entry in Journal of, 83; FIXED, see *Fixed Assets*; CURRENT, see *Current Assets*; grouping of, 139; LIQUID, 705; loss on realization of, 143; marshalling of in B/S, 142; marshalling of,

in Journal, 83; rules for valuing, 148; treatment of not easily realizable, 147
ASSIGNEE, ASSIGNMENT, definition of, 690
ASSURANCE ACCOUNTS, exposition of, 516–53
ASSURANCE Co., form of accounts of, 580–1
ASSURANCE defined, 516
ASSURANCE COMPANIES ACT, 1909, chief sections of, 520
ASSURED, definition of, 516
"AT CALL" explained, 559
"AT SIGHT" explained, 222
"AT 60 DAYS AFTER SIGHT" explained, 222
ATTORNEY, definition of, 690
AUDIT, definition of, 690
AUTHORIZED CAPITAL defined, 288
AVERAGES, definition of, 691
AWARD, definition of, 691

BAD DEBTS, 117; treatment of, 117, 118, 119 (partly recovered); writing off, 647
BAD DEBTS ACCOUNT, specimen of, 120; treatment, 117
BAD DEBTS RESERVE OR PROVISION, treatment of, 118, 661; specimen account, 120; suspension of payment and, 171
"BALANCES BROUGHT DOWN" defined, 5; rules for, 629
BALANCES, 5; agreement of, 39; Capital Accounts, 10; Cash Book, 43; CREDIT, defined, 12; DEBIT, defined, 11; definition of, 5; Petty Cash Book, 57; Profit and Loss Account, 133; Trading Account, 133; TRIAL, see *Trial Balance*
BALANCE SHEET, American BANK, 512; definition of, 17, 138, 145; Dr. and Cr. in, 139; Goodwill in, 143, 145; grouping in, 140; incorrect heading of, 139; Life Assurance, 522, 540; Marshalling of Assets and Liabilities in, 140–2; position of Assets and Liabilities, 139; Profit and Loss Account and, 138, 139; profits prior to incorporation and, 333; specimens of, 141, 149, 204, 306, 332; 340 (model of company's); 345; 395 (branch); Statement of Affairs and, 139, 147; two methods of preparing, 142; warning when considering, 145; what a B/S is not, 139
BANK, Account, not posted in Ledger, 44; BALANCE defined, 44; BALANCE SHEET, form of, 556–7; BOOKS, specimen entries in, 496–511 (see also under the various titles); CHARGES, 647; COLUMNS in C/B, 45; COMMISSION on accounts, 25; CLEARING HOUSE explained, 492, 693; crossed cheques and, 208; definition of, 21; DISCOUNT defined, 29, 93, 508; DISCOUNT, treatment of, 93, 169; documentary bills and, 221; DRAFTS, 691; GENERAL LEDGER, 498, 504; LOANS, see *Loans*; minimum balance at, 25; NOTE, compared with Bill of Exchange, 28; NOTE compared with cheque, 206; NOTE, compared with P/N, 224; NOTE, disadvantages of, 206; PASS BOOK, checking of, 52; PASS BOOK, reconciliation with C/B, 52; PASS BOOK, uses of, 24; PASS BOOK, writing up of, 507; PAYING-IN-SLIPS, 496–7, practice of, in cr. Bills and Cheques, 168 *note*; RATE defined, 25, 691; reasons for stopping cheques, 213; remarks on cheques, 214; REBATE, 561; RECEIPT FOR SHARE CALL, 317; RECEIPT FOR SHARE APPLICATION DEPOSIT, 315;

RECEIPT FOR SHARE ALLOTMENT DEPOSIT, 316; RESERVE, 561; Services of modern, 487; STATEMENT OF ACCOUNTS (AMERICAN), 512; TRAVELLING INSPECTORS OF, 566; WASTE BOOK, 501
BANK ACCOUNTS, exposition of, 487–512; Slip System, 493. See also under *Bank*
BANK BOOKS. See under various headings
BANK OF ENGLAND, Fiduciary issue of, 488; powers and functions of, 490; Rest, 490; RETURN, 489–90, 691
BANK RATE, 691
BANKER'S CLEARING HOUSE, 492, 504; times for clearing, 493 *note*
BANKERS' DRAFTS, 691
BANKING, advantages of, 21
BANKRUPTCY, Acts of, see *Acts of Bankruptcy;* Committee of Inspection in, 451; composition in, 450; Deficiency (or Surplus) Account in, 454, 456; discharge from, 451; "Estate Cash Book" in, 456; first meeting of creditors in, 450; insolvent person and, 450; NOTICE, 457 *note;* meaning of, 450; Official Receiver in, 450; partnerships and, 272; PETITION, how presented, 450; preferential creditors in, 451; public examination in, 450; release of trustee in, 456; Realization Account in, 456; Receiving Order in, 450; Statement of Affairs in, 451-4; trustee in, 450
BEARER CHEQUE, explained, 207
"BELOW PAR," definition of, 708
BILL OF LADING, how transferable, 211 *note;* attached to B/E, 221; in Consignment Accounts, 239; specimens of, 221 *facing*
BILL OF SALE, explained, 691
BILL(s), accepting a, 88; accepting foreign bills, 220; acceptor of a, 215; ACCOMMODATION, see *Accommodation Bills;* allonge on, 216; a negotiable instrument, 211; an instrument of credit, 214; at sight, 222; at 60 days' sight, 222; banker's security when buying, 216; compared with Bank Note, 28; compared with Cheque, 207; compared with P/N, 224; Consignment Accounts and, 239; date of maturity, 29, 30; days of grace on, 30; definition of, 28, 214; discount of, 29, 93; dishonouring of, 216, 217; DOCUMENTARY, see *Documentary Bills;* drawing of, 29; drawee of, 215; endorsement of, 28, 215; "endorsing over," 215; FOREIGN, see *Foreign Bills;* HOUSE, 223; INLAND, 216; INLAND, specimen of, 218; Letter of Hypothecation and, 221; INTEREST on, 223; liability on, 29, 216, 217, 220; negotiable instrument, 211; noting of, 92, 217; "on demand" defined, 222; PAYABLE, defined, 29; PAYABLE BOOK, 89; presentment of, 710; protesting a, 217; rebate on, 222, 508; RECEIVABLE, defined, 29; RECEIVABLE BOOK, 91; recovery of noting charges on, 217; Referee in case of need, 713; renewal of, 217; *sans recours* on, 714; specimens of, 218, 219; stamp duty on, 223; tenor of, 30, 222; three months after date, 222; Trust Receipt and, 222; usance of, 222; utility of, 28; "with documents attached," 221
BILLS OF EXCHANGE ACTS, 215
BILLS PAYABLE BOOK (or JOURNAL), entries in, 102;

"remarks" column in, 94; specimen forms of, 90, 192
Bills Receivable Book (or Journal), entries in, 76, 161; "remarks" column in, 94; specimen forms of, 90, 192
Bills Received for Collection Register (Bank), 507
Bills Received for Discount Register (Bank), 508, 509
Board defined, 691
Board of Directors defined, 293, 691
Board of Trade defined, 691
Bond, definition of, 692
Bond, Exchequer, see *Exchequer Bond*
Bonded Warehouse defined, 692
Bonus, defined, 692; Assurance, 531
Book Debts, definition of, 692; how to treat, 117; kinds of, 116; provisions for, 117–8
Book-keepers' Compendium, 686–717
Book-keeping defined, 1; Single Entry, 2, 228; Double Entry, 1, etc.; Tabular or Columnar, 373–82
Books, essentials in keeping, 32; kinds of, 32–33
Books of Account defined, 32, 33
Books of Original Entry, kinds of, 32
Borax Consolidated Limited Accounts, form of, comments on, 564–7
Borrowing on Security, example of, 170–1
Bottomry, definition of, 692
Bought Book, see *Purchases Book*
Bought Ledger, defined, 39
Branch Accounts, 390–399, B/S in, 395; Branch Stock Account on, 397, 398, 399; conversion of fluctuating rates, 407–8; conversion of fluctuating rates and, 408; conversion of stable rates and, 400; crop cost account in, 411; fluctuating rates of exchange and, 407; Foreign, 399–412; Foreign, illustration of, 404; Trial Balances in, 396, 405; Multiple Shop, 399; practice of some accountants in, 407; remittances in transit and, 395–6; reserve for losses on exchange, 403; specimen forms of, 404–6; stable rates of exchange and, 400; Tobacco Plantation, 411–12; Trial Balance in, 394, 396, 405, 410, 411
British Offices' Experience Tables, 516
Bullion, definition of, 692
Business Names Act, 1916, 255

Call Account, 297
Called-up Capital, 289
Call Letters, 297, 317
Call Money (Loans), 559 *note*
Calls on Shares explained, 288; method of entering, 298; notice of, 298; notice, form of, 317
Capital Account, definition of, 10, 38; of limited Company, 288; of partnership, 258; specimens of, 11, 263, 268, 269, 274
Capital, Authorized, defined, 288; definition of, 12; Fixed, see *Fixed Assets;* Current, see *Current Assets;* increase of, 700; Interest on, 257, 259, 265; Issued, 288; Loss, in Limited Companies, 38; Paid-up, 289; Reduction of, 331; Registered, see *Authorized;* Subscribed, 288
Capital Redemption (Assurance), 540
Cash Account, nature of, 33, 43–57; specimen of, 13
Cash Book, balancing of, 43; Bank, 503; columnar, specimen of, 365; definition of, 33; Double

COLUMN, 47; entries in, 43, etc.; kinds of, 44–53; PETTY, 53; origin of, 43; reconciliation with Pass Book, 52; recording Discounts in, 48; specimen rulings of, 44, 45, 301; THREE COLUMN, 51; uses of, 43
CASH CREDIT, definition of, 692
CASH DISCOUNT defined, 26; method of entering, 47, 48
CASH SALES BOOK, 72
CASH SALES defined, 26; separate Ledger Account for, 164
CASHIER, duties of, 50
CASTING (ACCOUNTS) defined, 378
CERTIFICATE, definition of, 693
CERTIFICATE OF INCORPORATION (COMPANY), 286
CERTIFICATE TO COMMENCE BUSINESS (COMPANY), 328
CHAMBERS OF COMMERCE, object of, 693
CHARTER PARTY defined, 693
CHATTELS defined, 693
CHEQUE, bankers' marks on, 214; bank's treatment of paid in, 168 *note*; BEARER, 207; BEARER, compared with Order, 207; BOOK, 212; compared with Bank Note, 206; crossing of, 208, 209; counterfoil of, 22, 23; definition of, 22, 207; drawing of, 22, 207; endorsement of, 207; kinds of, 207; negotiability of, 210, 211; "not negotiable," 211; OPEN, 209; ORDER, 207; payee of, 22, 207; "payee's account only," 212; plain paper, 212; parties to, 207; post-dated, 710; reasons for bankers' stopping, 213; specimen of, 23; stolen, 211; with receipt form attached, 212, 213
CHOSES IN ACTION defined, 693
C.I.F. explained, 716
CIRCULAR NOTE defined, 693
CIRCULATING ASSETS defined, 148, 693
CLAIMS (ASSURANCE), 529
CLEARING HOUSE (BANKERS'), 492, 504, 558, 693
CLEARING HOUSES, object of, 693
C.O.D. explained, 716
CODICIL, definition of, 693
COLLATERAL SECURITY defined, 693
COLONIAL STOCK ACT, 1900, 703
COLUMNAR BOOK-KEEPING explained, 373–82
COLUMNAR CASH BOOK, advantages of, 376; example of, 377
COLUMNAR JOURNAL described, 374
COLUMNAR LEDGER described, 376–82; Hotel Visitors', 382; Water Companies' Consumers, 380
COLUMNAR PURCHASES ACCOUNT, specimen of, 66
COLUMNAR PURCHASES BOOK, specimen of, 66
COLUMNAR SALES ACCOUNT, specimen of, 71
COMMERCIAL CREDIT defined, 694
COMMISSION, definition of, 694; Life Assurance, 531; on Current Account, 25
COMMITTEE, definition of, 694
COMMITTEE OF INSPECTION, see *Bankruptcy*
COMPANIES ACT 1948, Balance Sheet Requirements, 336–7; Profit and Loss Account Requirements, 337–8; Specimen accounts under, 682, 683; Statutory Returns and Books, 341–2
COMPANY, Annual Return of, 341; Application and Allotment Book of, 308–9; Articles of Association, 283–5, 690; Authorized Capital of, 288; Balance Sheet (model) of, 340; Books required for, 341; Called-up Capital of, 288; Calls on Shares in, 288, 295, 296; Capital Account in, 38; Certificate of Incorporation of, 286; Debentures in, 292; De-

ferred Shares in, 291; Definition of, 280; Directors of, 293–94; Dividend and Income Tax Accounts of, 467–77; Dividends of, 289, 341, 467; Forfeited shares in, 323; Founders' Shares in, 291; Goodwill of, 445–49; Income Tax, and, 467–77; Incorporation of, 280, Issued Capital of, 288; Kinds of Limited, 284; Ledger entries (opening) of limited, 302–5; Liability (limited) of, 282; Liability (unlimited) of, 282; Liquidator of, 345; Management Shares of, 291; Meetings of, 328–9; Memorandum of Association of, 283; Minimum Subscription of, 295, 328; Minute Book, 342, 706; ONE MAN, 287, Ordinary Shares in, 290; Paid up capital in, 289; Partnerships and, 280, 299; Preference Shares in, 289, 290; Preliminary expenses of, 327; PRIVATE LIMITED, 284, 287, 711; Profits of, 112, 291; Prospectus of, 297; PUBLIC, 284; Quorum in a, 711; Receiver for Debenture Holders, 346; Reconstruction of, 712; Register of Directors and Secretaries of, 294; Register of Members of, 296; Registered Office of, 283, 713; Resolutions of, 330; Seal Register of, 714; Statement of Affairs in, 451–3; Share Register of, 296, 306; Shares of, 287–91; SINGLE SHIP, 715; Statutory Meeting of, 328; Statutory Report of, 329; Statutory Returns of, 341; STOCK, 291; Subscribed capital of, 287; Table A and, 283, 285; Transfer Department of, 310; Wasting Assets of, 149; Watered Capital of, 300; Winding-up of, 346

COMPENSATING ERRORS explained, 694

COMPOSITION defined, 694

CONSIDERATION defined, 694

CONSIGNEE defined, 240

CONSIGNMENT ACCOUNTS, 238–51; Account Sales in, 243, 246; agent in, 238; Bills of Exchange in, 241; Consignee's books in, 243; Consignor's books in, 241; Current accounts between merchants and, 245–6; Del Credere in, 240; example of treatment of, 245; formula for Interest in, 249; Interest on balances in, 250; LEDGER, 242–5; "net proceeds" in, 243, 247; precaution in calculating Interest in, 249; specimens of. 246, 248

CONSIGNMENTS defined, 238

CONSIGNMENTS INWARDS and OUTWARDS, 240, 244

CONSIGNOR defined, 240

CONSOLIDATED STOCK, CONSOLS, defined, 694

CONSUL, duties of, 694

CONTINGENT LIABILITY defined, 694

CONTRACT, definition of, 695; SIMPLE, 715

CONTRACT NOTE defined, 695

CONTROL ACCOUNTS, 351; Bills of Exchange 362; Cash Book in, 361, 365; Cash Discounts and, 362; Creditors Ledger in, 357–361; Debtors Ledger in, 351, 356; Mode of Preparation of, 351; Returns and, 361; Self Balancing Ledgers and, 352; specimens of, 354, 355, 359; Transfer journals in, 363

COST ACCOUNTS: Abstract of Wages, 423, 430; Bin or Locker Card, 429; Cost Ledger, 424; Cost Sheets, 433; difference between, and financial accounts, 420; Goods Inwards Book in, 421; labour and, 422; Materials Abstract, 424, 432; Office Oncost, 426;

Oncost Expenses, 422, 424; Shop Oncost, 425; Prime Cost, 422; Requisition Form, 421, 429; Stock and Stores Account, 420; Stores Issued Book, 421, 430; Stores Ledger, 421, 431; Table of Costs, 427; Weekly Time Sheet, 428
COSTING, defined, 420
COUNTERFOIL defined, 22; Counter Sales Book, 73
COUPON, 695; INTEREST, specimen of, 349; Talon and, 293
CREDIT defined, 26
CREDIT BALANCES defined, 12
CREDIT NOTE defined, 695; use of, 96
CREDIT SIDE OF LEDGER defined, 4
CROP COST ACCOUNT, specimens of, 411, 568
CRORE (of rupees), value of, 714
CROSS CASTING defined, 378
CROSSING (cheque), meaning of, 208; ways of, 209–10
CUM DIVIDEND defined, 479, 696
CUMULATIVE PREFERENCE SHARES, 289
CURRENCIES, Foreign, 399; Fluctuating Exchange, 407; Stable Exchange, 400. See also *Branch Accounts*
CURRENCY explained, 695
CURRENT ACCOUNT, charge for keeping, 25; defined, 22, 686; Interest on, 26; minimum balance of, 25; specimen of (partnership), 262; transfers from, to Deposit Account, 26
CURRENT ACCOUNT LEDGER (BANK), 504–6
CURRENT ASSETS, 148, 695
CUSTOMERS LEDGER, see *Sales Ledger*

DAY BOOK, see *Sales Book*
DAYS OF GRACE, definition of, 30
DEBENTURE(S) BEARER, 293; Bonds, 293; defined, 292; Discount on Debentures Account, 321; how issued, 292; interest on, 293; issued as fully paid, 293; issued at a discount, 321; premiums on, 321; Receiver for Holders of, 346; REGISTER, 296; Registers of, 296, 306; Specimen of Registered, 320; STOCK, 292, 293; Talon, 293; Trust Deed and, 292
DEBIT BALANCES defined, 11
DEBIT NOTE defined, 695
DEBIT SIDE OF LEDGER defined, 4
DEBTS, see *Book Debts*
DEED, definition of, 695
DEED OF ARRANGEMENT, 456–8; when void, 457 *note*, 695
DEED OF PARTNERSHIP, see *Partnership*
DEFENDANT, definition of, 709
DEFERRED Annuities, defined, 688; shares defined, 291
DEFERRED CREDITORS, 710
DEFERRED SHARES, 291
DEFICIENCY ACCOUNT defined, 455; example of, 454
DEL CREDERE explained, 240
DELIVERY ORDER defined, 696
DEMURRAGE, definition of, 695
DEPARTMENTAL ACCOUNTS, 385–90; analysis of expenses in, 386–90; LEDGERS, 385; specimen of Trial Balance in, 387; Profit and Loss Account in, 377, 560; Purchases Book and, 84; Trading Account in, 388
DEPOSIT ACCOUNT, 26
DEPRECIATION, Account, specimen of, 130, 131; definition of, 126; distinguished from fluctuation in value, 127; Goodwill and, 448–9; insurance against, 128; kinds of, 126; Plant and machinery and, 126, 127, 649; leases and, 126, 127; methods of charging, 128

DIRECTORS, 293–4, 342; Attendance Book, 342; Retirement under age limit, 294; unlimited liability of, 485
DIRECTORS' FEES, treatment of, 651
DISCOUNT, Account, 48, 49, 647; BANKERS', defined, 29; BANKERS' method of computing, 92–3; CASH defined, 26; method of entering, 48, 172–3; TRADE, advantages of, 27
DISCOUNT ON DEBENTURES ACCOUNT, 321
DISCOUNT ON SHARES ACCOUNT, 321
DISCOUNTED BILLS, bank's way of treating, 92–3
DISHONOURED BILL, 91, 216–7; order of liability on, 217
DISPENSARY COLUMNAR C/B, specimen of, 377
DISTRESS, definition of, 696
DIVIDEND(S), arrears of, 289 *note;* Book (or Sheets), 471, 473; CUM, 479; definition of, 341, 696, 702; deduction of Inc. Tax from, 468; entries to record, 480; Ex, 479; fully paid shares as, 474; INTERIM defined, 341, 702; payable out of profits, 289
DIVIDENDS AND INCOME TAX ACCOUNTS, 467–77
DIVIDEND WARRANT, example of, 472; defined, 696
DOCK WARRANT explained, 696
DOCUMENTARY BILLS, action of bank with regard to, 221; defined, 221
DORMANT PARTNER defined, 696
DOUBLE ACCOUNT SYSTEM, 443–5
DOUBLE COLUMN CASH BOOK, specimen of, 47
DOUBTFUL DEBTS, see *Bad Debts*
DRAWEE, definition of, 22, 215
DRAWER defined, 22

E. AND O.E. explained, 696
ENDORSEMENT defined, 207
"ENDORSING OVER," 215
ENDOWMENT POLICY defined, 529, 696
ENTRY defined, 696
ENTRY, PORT OF, defined, 696
ESTATE, definition of, 696
ESTATE CASH BOOK, auditing of, 456
ESTATE DUTY, definition of, 697
EXAMINATION PAPERS, specimens, 782 *et sqq.*
EXCHANGE, BILL OF, see *Bills*
EXCHANGES, Stable, 400; Fluctuating, 407
EXCHEQUER BILLS defined, 697; BONDS defined, 697
EXCISE DUTIES defined, 697
EX DIVIDEND defined, 479, 696
EXECUTION, definition of, 697
EXECUTOR, definition of, 697
EXEMPT PRIVATE COMPANY, Privileges enjoyed, 287; Requirements as to, 287
EXTRAORDINARY GENERAL MEETING (COMPANY), 329
EXTRAORDINARY RESOLUTION (COMPANY), 330

FACTOR, definition of, 697
F.A.S. explained, 716
FIDUCIARY ISSUE, 488
FIRE INSURANCE, days of grace in, 524 *note*
FIRST COST, see *Prime Cost*
FIXED ASSETS defined, 149, 697; Foreign Branch Account and, 408–9; trader and market value of, 145
FIXED CHARGES defined, 697
"FLOATERS," definition of, 559
FLOATING CHARGES defined, 698
F.O.B. explained, 698, 716
FOLIO, definition of, 698
"FOR CASH," definition of, 26
FOREIGN BILLS, Bills of Lading and, 221; definition of, 220; liability

on, 220; noting and protesting of, 220; separation of First and Second, 220; sets of, 220; specimen of, 219; "with documents attached," 221, 241
FOREIGN CURRENCIES, 399–412. See *Branch Accounts*
FORFEITURE OF SHARES, 323 *et sqq.*
FORM OF APPLICATION FOR SHARES, 313, 315
FORMATION EXPENSES, see *Preliminary Expenses*
FOUNDER'S SHARES, 291
FRAUDULENT PREFERENCE explained, 698
FREIGHT, definition of, 698
"FROM ACCOUNT TO ACCOUNT" explained, 559

GARNISHEE ORDER defined, 213, 698
GARTONS LTD., Published Accounts of (under 1948 Act), 598–9; Comments on, 597, 602
GAZETTES, London, etc., their uses, 698
GENERAL AVERAGE defined, 691, 698
GENERAL CROSSING (cheque) explained, 209
GENERAL LEDGER, 351, 356; BANK, 498, 499
GENERAL LIEN, definition of, 705
GENERAL RESERVE, 125
GILT-EDGED SECURITIES defined, 699
GOLD BOND defined, 692
GOODS ACCOUNT, objection to opening, 63
GOODS IN BOND defined, 692
GOODS NOT UP TO SAMPLE, procedure with, 28, 94
GOODWILL ACCOUNT in partnership, 266–70, 299
GOODWILL, a transferable asset, 445; alternative method of calculating, 447; Capital of limited company and, 447; definition of, 445; depreciation of, 449; legal aspect of book value of, 445; limited company and, 447; partnership, 265, 298–9; realization of, 145; reasons for writing down, 448; reducing book value of, 448–9; value of, 445–6
GROSS LOSS, definition of, 111; method of treating, 112
GROSS PROFIT, ascertainment of, 112; definition of, 110, 180; Entries, 180; method of treating, 111
GROSS WEIGHT (or GROSS), definition of, 248
GUARANTEE (GUARANTOR), definition of, 699
GUARANTEED STOCKS, definition of, 699
GUARD BOOK, definition of, 699

HARRODS LIMITED, Balance Sheet and Profit and Loss Account of, 562–3; comments on, 566
HAT MONEY, definition of, 711
HIDDEN RESERVES, see *Secret Reserves*
HINTS TO EXAM. CANDIDATES, 604–14
HIRE PURCHASE AGREEMENTS explained, 699
HIRE PURCHASE CO.'S ACCOUNTS, form of, 576–7, 699–701; comments on, 582
HOLDING OUT, definition of, 700
HOTEL VISITORS LEDGER, form of, 382
HOUSE BILLS explained, 223
HYPOTHECATE, definition of, 700

I/F explained, 214
IMPERSONAL ACCOUNTS, see *Nominal Accounts*
IMPERSONAL LEDGER, see *Nominal Ledger*
IMPREST SYSTEM explained, 57; note on, 173
IN BOND, 692
INCOME, definition of, 700
INCOME AND EXPENDITURE ACCOUNTS, 460–2, 700
INCORPORATED COMPANY defined, 280
INCORPORATION defined, 700
INCREASE OF CAPITAL, 700

INDENT, definition of, 700
INDENTURE, definition of, 700
INFANT, definition of, 700
INLAND BILL OF EXCHANGE explained, 216; form of, 218
INSCRIBED STOCKS, definition of, 702
INSOLVENCY, definition of, 701; note on, 171
INSOLVENT DEBTORS, loss from, 116
INSURABLE INTEREST, 519
INSURANCE PREMIUMS, treatment of, 648
INTEREST, definition of, 701; on capital during construction, 701; on Current Account, 25, 249; on Partner's Capital, 263;
INTEREST COUPON, specimen of, 349
INTERIM DIVIDEND explained, 341, 702
INVENTORY, definition of, 702
INVESTMENT ACCOUNTS, exposition of, 478–85
INVESTMENTS, definition of, 702; hints on, 702; in same business, 125; types of, 478, 702
INVOICE, definition of, 703; *pro forma*, 240, 703
INVOICE BOOK defined, 703; term loosely applied, 703
I O U explained, 703
ISSUED CAPITAL defined, 288

JETTISON, definition of, 703
JOBBERS, definition of, 703
JOINT ACCOUNTS, explained, 416–19
JOINT ADVENTURE defined, 416
JOINT AND SEVERAL LIABILITY defined, 704
JOINT STOCK CO., see *Company*
JOURNAL, Columnar, 374; bills and, 88; definition of, 33; diversity of opinions on, 77; kinds of, 33, 76; marshalling of Assets and Liabilities in, 83; "narration" in, 82; PROPER, 77, 78; rules for compiling entries in, 80; use of, 75
JOURNAL ENTRIES, closing, 85; note respecting, 85; specimens of, 79, 81, 82, 84, 85, 158, 188, 302, 345
JOURNALIZING, definition of 82; example of, 83
JUDGMENT, definition of, 704

"KITES" explained, 222

LAC (LAKH) (rupees), value of, 714
LANDLORDS' TAX, see *Property Tax*
LATIN MONETARY UNION explained, 704
LEASE, premium on, 704; treatment of, 126
LEDGER, Balances in, agreement of, 38–9; Balances in, defined, 5; Capital Account in, 10; Cash Purchases and, 66; COLUMNAR, 365; COST, explained 420; definition of, 2, 34–6; DEPARTMENTAL, 385; ENTRIES, theory and practice, 34; Goods Account and, 63; HOTEL VISITORS, 382; kinds of, 39; Impersonal Accounts in, 36; Nominal Accounts in, 36; Personal Accounts in, 36; posting the, defined, 38; Profit and Loss Account in, 10, 113; Purchases Book and, 64; Real Account in, 36; SELF-BALANCING, see *Self-Balancing Ledger*; specimen entries in, 193 *et sqq.*, 303–5, etc.; Slip System of posting in, 493; WATER CO.'S CONSUMERS, 380
LEDGER ACCOUNT, debit and credit side of, 3; definition of, 3; how constructed, 3, 4
LEGACY, definition of, 704
LEGAL TENDER, definition of, 704
LETTER OF ALLOTMENT, 313, 316;
LETTER OF APPLICATION, form of, 315
LETTER OF CREDIT defined, 704
LETTER OF HYPOTHECATION, 221

LETTER OF INDEMNITY, 313
LETTER OF REGRET, 313, 318
LETTERS OF ADMINISTRATION, 687
LETTERS PATENT, see *Patent*
LIABILITIES defined, 12, 138, 704; grouping of, 140; marshalling of, in B/S, 142; marshalling of, in Journal, 83; position of in B/S of, 139 *and note*, 142
LIEN, definition of, 705
LIFE ANNUITIES defined, 688
LIFE ASSURANCE, Agents' Credit Journal, 547, 550; Agents' Debit Journal, 547, 550; Annuities, 526, 530, 540; Balance Sheet, 522, 540; Bonuses, 531; Books of Account of, 544; Books of Record of, 550; British Offices Experience Tables, 516; Capital Redemption, 540; Cash Books, 545–8; Claims, 529; Commission, 531; Companies, kinds of, 517; Endowment Policies, 529; First Schedule, 523–37; Half Credit, System of, 525; Insurable Interest, 519; Investments, 542; Journal, 549; Ledgers. 548; Loans, kinds of, 541; Mean After-Lifetime, 517; Mortality Tables, 516; Mortgages, 541; Policy, 516, 518; Premiums, 516, 520, 524–5; Profit and Loss Account, 522, 538; Quinquennial Valuation, 517, 522; Receipts and Expenditure in Allocation of, 523; Reserve for unexpired risks, 538; Revenue Account (First Schedule), 522, 523; Reversionary Bonus, 531 *note;* Second Schedule, 538–9; Sinking Fund, 540; Third Schedule, 540, 542; Valuation Balance Sheet, 518; Valuation Forms (4th and 5th Schedules), 544; With Profits Policy, 518–19
LIFE ASSURANCE CO.'S Accounts, 516–50, 580–2
LIMITATION OF ACTIONS explained, 705
LIMITED COMPANY, see *Company*
LIMITED COMPANIES, Income Tax Accounts of, 467–77
LIMITED LIABILITY defined, 281; on shares, 291
LIMITED PARTNERSHIPS, 256, 483–5
LIQUID ASSETS, definition of, 705
LIQUIDATOR, appointment of, 345; definition of, 705; duties of, 345; illustration of account by, 346; summary of accounts by, 347
LLOYD'S, objects of, 705
LLOYDS BANK, LTD., form of Accounts of, 555–68
LLOYD'S REGISTER, 705
LOANS, at call, defined, 559; bankers' practice in granting, 25, 560; Bill Brokers, 559; "from account to account," 559; kinds of, 559 *note;* Life Assurance, 541; method of repaying, 132; rate of interest on, 25; SHORT NOTICE, 559; stockbrokers', 559
LONDON CLEARING HOUSE, procedure of, 558
"LONDON GAZETTE," 698
LONDON MONEY MARKET, 707
LOOSE LEAF LEDGERS, 610

MACHINERY, residual value of, 127
MACHINERY ACCOUNT, specimen of, 130–1
"MAKER" of a P/N defined, 224
MALAY STATES TOBACCO PLAN., LTD., form of accounts of, 568–71
MANAGEMENT SHARES, 291
MANAGING DIRECTOR defined, 705
MANIFEST defined, 706
MANUFACTURING ACCOUNTS, 107; difference between, and Trading Accounts, 108; diversity of opinion about, 109; specimen of, 111

MARINE INSURANCE defined, 706
MARKED CHEQUES, 214
MARSHALLING ASSETS, AND LIABILITIES, 83, 140–2, 555
MEAN AFTER-LIFETIME (ASSURANCE), 517
MEMORANDUM BOOKS defined, 33; uses of, 33
MEMORANDUM OF ASSOCIATION defined, 283; Table A and, 485
MERCHANTS' ACCOUNTS, illustrations of, 154–205
MINERAL ROYALTIES, basis of, 436; example of, 437–8; lessee and, 436; minimum rent, 437, 440; principle of recording, 439; short workings, 437, 440
MINIMUM RENT defined, 437
MINIMUM SUBSCRIPTION, 295, 328
MINING ROYALTIES, see *Royalties*
MINT PAR OF EXCHANGE defined, 706
MINUTE BOOK, necessity for, 342, 706
MINUTES defined, 706
MOIETY defined, 707
MONEY, Cheap and Dear, defined, 707; CALL, WEEKLY, OVERNIGHT 559
MONEY MARKET defined, 707
MORTALITY TABLES (ASSURANCE), 516
MORTGAGE, FIRST AND SECOND, defined, 707; Life Assurance, 541
MORTGAGEE, MORTGAGOR, 707
MULTIPLE SHOP CONCERNS, system of, 399; stocktaking in, 399

NARRATION, definition of, 82
NATIONAL PROVINCIAL BANK, Published Accounts of (under 1948 Act), 600–3; Comments on, 602–3
NEGOTIABLE INSTRUMENT defined, 210, 708; position of holder of, 210
NET, 708
NET CASH, see *Net*
NET LOSS, 113, 114
NET PROFIT defined, 111, 112, 113; assessment of, 112
NET WEIGHT, NET, defined, 248, 708
NOMINAL ACCOUNTS, defined, 8, 36; entries in, 36; example of, 9
NOMINAL CAPITAL, see *Authorized Capital*
NOMINAL LEDGER defined, 36, 39; entry in, 36
NON-CUMULATIVE PREFERENCE SHARES, 289
NOTARY PUBLIC, 217
NOTICE OF APPEAL, see *Income Tax*
NOTING A BILL, 217
"NOT NEGOTIABLE," effect of words, 211, 708; limit of words to cheque, 211; when useless, 708
N/S explained, 214

OFFICIAL RECEIVER, duties of, 450
ON COST CHARGES defined, 424
"ON DEMAND" defined, 222
"OPEN ACCOUNT CURRENT" explained, 686
OPEN CHEQUE defined, 209
ORDER CHEQUE explained, 207
ORDINARY RESOLUTION (COMPANY), 330
ORDINARY SHARES defined, 290; reasons for avoiding in some cases, 447
ORIGINAL ENTRIES, definition of, 32
OVERDRAFT defined, 22; bank treatment of, 674
OVERHEAD CHARGES defined, 424
OVERNIGHT MONEY (LOANS), 559 *note*

PAID-UP CAPITAL defined, 289
PAR, definition of, 708
Pari Passu, meaning of, 708
PAR OF EXCHANGE, see *Mint Par of Exchange*
PAROL CONTRACTS, see *Simple Contracts*
PARTICIPATING PREFERENCE SHARES, 290
PARTICULAR AVERAGE defined, 691

PARTICULAR LIEN defined, 705
PARTNERS, Active, 255; definition of, 255; Dormant or Sleeping, 255, 696; drawings of, 258; duration of, 255; interest on capital of, 257, 258, 261; interest on drawings of, 261; liability of, 256; number of, 255; rights of, 256; salaries of, how treated, 261; taking over Assets by, 276
PARTNERSHIP, Accounts, 255–276; acquisition by company of, 299; admission of new partner into, 266–271; arbitration and, 257; Balance Sheet in, 271, 274; bankruptcy of, 272; Capital Account of, 258–61, 263, 268–9, 274; clauses of Deed of, 257; compared with limited company, 280; Current Account of, 263; DEED OF, definition and clauses of, 274; defined, 256; disputes, 257; dissolution of, 271, 273; Drawing Account of, 259; *Garner* v. *Murray*, and, 276; Goodwill in, 265, 267, 268, 299; LIMITED, 256; premiums for admission into, 266; Profit and Loss Account of, 264, 265; Profit and Loss on Realization Account in, 272; ranking of debts in bankruptcy of, 272; realization of assets in, 273; taking over assets of, by company, 298, 299
PARTNERSHIP ACT, 1890, 255, 257, 259, 277
PASS BOOK, see *Bank Pass Book*
PATENT RIGHTS, entering value of, 649, 659; meaning of, 708; writing down, 659
PAWN, definition of, 708
PAYEE, definition of, 22, 207
PAYING CASHIER'S COUNTER CASH BOOK (BANK), 502
PAYING-IN SLIP, 497–8
"PAYMENT FOR HONOUR SUPRA PROTEST," 708
PER CENT., meaning of, 709
PERCENTAGE defined, 709
PERPETUAL ANNUITIES defined, 688
PER PROCURATION defined, 709
PERSONAL ACCOUNT, defined, 4, 36; specimen of, 5
PERSONAL PROPERTY defined, 709
PETTY CASH defined, 24
PETTY CASH BOOK, description of, 53; example of entry in, 160; specimens of, 55, 185
PETTY CASHIER, duties of, 53
"PIG ON PORK," 223
PLAINTIFF, definition of, 709
PLEDGE, PLEDGEE, PLEDGER, see *Pawn*
P/N explained, 709
POLICY defined, 709
POLL defined, 709
PORT OF ENTRY defined, 696
POST-DATED CHEQUE defined, 710
POSTING, Bills Payable Book, 89–90; Bills Receivable Book, 91–2; Cash Book, 43–57; errors in, 104–7; Journal, 75–86; Ledger, 34–9, Purchases Book, 61–7; Returns Book, 94–8; Sales Book, 70–3; Tabular Books, 373–82
POSTPONED CREDITORS defined, 710
POWER OF ATTORNEY defined, 690
PREFERENCE SHARES (*or* STOCK), 289, 478
PREFERENTIAL CREDITORS, 451, 710
PRELIMINARY EXPENSES ACCOUNT, 327
PREMIUM, difference between Capital and, 267; example of, 266; instead of rent, 127; Life Assurance, 516, 520, 524; ON DEBENTURES, 321; ON SHARES, 314; Partnerships and, 266; treatment of, 267–8
PRESENTMENT FOR ACCEPTANCE, 710
PRESS COPY, definition of, 710
PRIMAGE, definition of, 711

PRIME COST, definition of, 422
PRIVATE COMPANY, 284, 287, 328, 711
PRIVATE LEDGER defined, 39
PROBATE defined, 711
PRO FORMA INVOICE defined, 703
PROFIT, definitions of, 711, 112; GROSS AND NET, 110–13; prior to incorporation, 333, 711; question of company's, 112, 291; REALIZED defined, 712
PROFIT AND LOSS ACCOUNT, B/S and, 147; defined, 10, 112; leases and, 126; REALIZED, 712; redeemable preference shares and, 336; specimens of, 121, 134, 264, 265, 388; Wasting assets and, 126
PROMISSORY NOTE, Bank Note and, 224; B/E and, 224; defined, 223; dishonouring etc., 224; how usually drawn, 224; liability on, 224; "maker" of, 224; specimen of, 218; stamp duty on, 224
PROMOTER, PROMOTION defined, 711
PROMPT CASH explained, 716
PROPERTY ACCOUNTS, see *Real Accounts*
PROSPECTUS, C.A. 1948 re, 281; defined, 295, 711
PROTESTING A BILL, 217
PROVISION, defined, 338; for Bad Debts, 198, 661; carrying forward of, 114; for special purposes, 116, 118
PROXY, definition of, 711; VOTING BY, 707
PRUDENTIAL ASSURANCE CO., form of accounts of, 580–2
PUBLIC LIMITED CO., see *Company*
PUBLISHED ACCOUNTS, forms of, 554 *et sqq.*
PURCHASES AND EXPENSES JOURNAL, specimen of, 374
PURCHASES BOOK OR JOURNAL, 61; COLUMNAR, 63, 65; departmental stores and, 64; specimens of, 63, 66, 190

QUARTER DAYS (England and Scotland), 711
QUINQUENNIAL VALUATION (ASSURANCE), 517, 522
QUORUM, definition of, 711

RANKING ASSETS, see *Marshalling Assets*
RATES OF EXCHANGE, explained, 712
R/D explained, 214
REAL ACCOUNT defined, 4, 36; specimen of, 6
REAL ESTATE OR PROPERTY defined, 709
REALIZATION ACCOUNT, 272, 275, 456
REALIZATION ACCOUNT (RECONSTRUCTION), 342
REALIZED PROFITS defined, 712
REASSURANCES, 524 and *note*
REBATE, definition of, 222, 508, 712
REBATE ON BILLS NOT DUE, 508
RECEIPT, definition of, 712
RECEIPTS AND EXPENDITURE ON CAPITAL ACCOUNT, 444
RECEIPTS AND PAYMENTS ACCOUNTS, 458–60
RECEIVED COUNTER CASH BOOK (BANK), 500
RECEIVED DAY BOOK (BANK), 501
RECEIVER, duties of, 346, 712
RECEIVING ORDER, effect of, 450
RECONCILIATION OF C/B with Pass Book, 52
RECONSTRUCTIONS AND AMALGAMATIONS, 342, 712
RECORD BOOK defined, 713
REDEEMABLE PREFERENCE SHARES, 290, 336
REDUCTION OF CAPITAL, 331
REFER TO DRAWER (R/D), 214
"REFEREE IN CASE OF NEED" explained, 713
REGISTER OF DIRECTORS, 294
REGISTER OF MEMBERS, 296, 306
REGISTER OF MORTGAGES AND CHARGES, 342, 708
REGISTERED DEBENTURE, specimen of, 320
REGISTERED OFFICE (Company), 286, 713

REMITTANCE defined, 713
RENEWED BILL, treatment of, 217
REPAIRS ACCOUNT, specimen of, 115
RESERVE, see *Reserve Fund* and *Reserves*
RESERVE FUND, defined, 125; differing opinions on, 125; investment of, 125; purpose of, 125; Reserve Account and, 125
RESERVE LIABILITY defined, 713
RESERVES, banker's, 126, 561; explained, 125; investment of, 125; LIFE ASSURANCE, 538
RESOLUTIONS (COMPANY), 330
REST, definition of, 126
RETURNS, definition of, 28, 94
RETURNS BOOKS, description of, 94–8; specimens of, 96–99
RETURNS INWARDS defined, 28; recording of, 97
RETURNS INWARDS BOOK, entries in, 202; specimen forms of, 98, 99, 191
RETURNS JOURNAL, use of, 76
RETURNS OUTWARDS defined, 28, 94; posting of, 95
RETURNS OUTWARDS BOOK, specimen forms of, 95–7, 99, 191; entries in, 191, 201
REVENUE ACCOUNT, 462; 580–1
ROYALTIES, MINERAL, see *Mineral Royalties*
ROYALTY, definition of, 435
ROYALTY ACCOUNTS, 435–43
RUPEE, value of, 714
Rx explained, 714

SALE, for cash, explained, 26, of buildings, method of, 170; upon credit, explained, 26
SALES ACCOUNT, specimen of Columnar, 71
SALES BOOK, Cash Sales and, 72; Counter Sales and, 73; description of, 70; entries in, 71, 190; specimen forms of, 70, 71, 190
SALES LEDGER, described, 39; Control Account, 351–72
SALVAGE defined, 714
SAMPLE, defined, 714
SANS RECOURS defined 714
SCRIP, definition of, 714,
SEAL (COMMON) defined, 714
SEAL REGISTER explained, 714
SECRET RESERVES, method of creating, 561
SECURITIES, definition of, 714
SELF-BALANCING LEDGERS, Control Accounts in, 351–73; system illustrated, 354–73
SET-OFF, definition of, 714
SETTLEMENT (SETTLING) DAYS, 559, 686
SHARE CAPITAL, definition of, 292; alterations to, 330
SHARE CERTIFICATE defined, 313, 693; delivery of, 313; specimen of, 319; what in exchange for, 313
SHARE REGISTER, specimen of, 307
SHARE TRANSFER, form of, 312
SHARE WARRANTS TO BEARER, 714
SHARES, Application and Allotment Account for, 296; Application and Allotment Account Book for, 309; at a discount, 321; at a premium, 314; banker's receipt for, 315, 316; call notice on, 297, 317; calls on, 288; certificates for, 291, 313; compared with stock, 291; CUMULATIVE PREF. 289; DEFERRED, 291; definition of, 287; dividends on, 290, 467–77; FORFEITED, 323; form of application for, 296, 315; FOUNDERS', 291; how issued, 313–4; "issued credited as fully paid," 298; Letter of Allotment for, 296; Letter of Indemnity, 313; Letter of Regret, 313, 318; limited liability upon, 281; Lists of Application for, 296; MANAGEMENT, 291; NON-CUM PREFERENCE, 289;

Ordinary, 290; Preferred Ordinary, 290; Redeemable Preference, 290; Transferor and Transferee of, 310; Transfer Register of, 311; unpaid calls on, 298
Ship, ownership of, 715
Short Loans, kinds of, 559
Short Workings (Shorts) defined, 436; entries necessary, 438–9; illustration of, 440–2; lessee and, 436–7; recouping of, 437
Simple Contract, defined, 715
Single Account System, 234
Single Entry Book-keeping, 228–234; conversion into D/E, 232; information afforded by, 230; inherent weakness of, 228–230; Statement of Affairs by, 231
Single Ship Company defined, 715
Sinking Fund explained, 715; Life Assurance, 540; loans and, 132
Slip (Marine Insurance), 715
Slip System of Ledger Posting, 493
Sold Book, see *Sales Book*
Sole Trader, 255
Solicitors' Accounts, form of accounts, 572–3; comments on, 578–9
Special Resolution (Company), 330
Specialty, defined, 715
Spiers & Pond Ltd, Published Accounts of (under 1948 Act), 586–93; comments on, 585, 594–7
Stamp Duty, on Bills, 223; on Cheques, 212; on P/Ns, 224
Statement, definition of, 715
Statement of Affairs, Balance Sheet and, 139, 147; Bankrupt's, 147, 541–3, definition of, 139; example of, 455; form of; 442–3; modification in Ltd. Co. of, 455; Single Entry, 231; summary portion of, 455
Statistical Books defined, 33
Statutes of Limitation, 705, 715
Statutory Declarations defined, 687
Statutory Meeting (Company), 328
Statutory Report (Company), 329
Steamship Line Accounts, form of, 574–5; comments on, 579, 582
Stock, compared with Shares, 291; Inscribed, 700, 702
Stock Exchange Clearing House, 693
Stock Exchange Settling Days, 686
Stock on Hand, valuation of, 109
Stock Receipt defined, 702
Stoppage in Transitu explained, 715
Stopping a Cheque, reasons for, 213
Subpœna defined, 715
Subscribed Capital defined, 288
Sundry Debtors, 140
Sundry Trade Creditors, 140
Supplementary Exercises, 718 *et sqq.*
Surety defined, 715
Surplus, American use of word, 126
Surrender Value defined, 583, 715
Suspension of Payment, note on, 171

Table A, 283, 284, 485
Tabular Book-keeping, 373–82
"Taking up a Bill under Rebate," 222
Talon, definition of, 716
Tare, definition of, 248
Taxation of Bills of Costs, 716
Taxing Master, duty of, 716
Tenor of a Bill, definition of, 30; when expressed in months, 30
Terms of Sale and Payment, 716

TESTATOR defined, 716
THREE COLUMN CASH BOOK, specimen of, 51
"THREE MONTHS AFTER DATE" explained, 222
TIME SHEET, specimen of, 428
TOBACCO PLANTATION, cash returns from, 411–12; form of accounts, 568–9
TONTINE defined, 716
TRADE DISCOUNT, advantages of, 27; entering of, 27
TRADING ACCOUNT, charges debited in, 108–9; difference between, and Manufacturing Account, 107; diversity of opinion about, 109; nature of, 64, 108; object of, 107; preparation of, 177–80; specimens of, 134, 388,
TRANSACTIONS, classification of, 2; definition of, 2; entry of, 3; FOR CASH, 26; examples of merchants', 154–205; rule in considering, 37; UPON CREDIT, 26
TRANSFER JOURNAL, use of, 363
TRANSFER REGISTER, nature of, 310; specimen form of, 311
TRANSFEROR and TRANSFEREE, 310
TREASURY BILLS defined, 716
TRIAL BALANCE, agreement of, 103, 104, 105; BRANCH, 393–6; compensating errors in, 106, 694; defined, 8, 102; Errors of Commission and omission in, 106; extraction of, 15, 102; preparing, 8, 103; specimen forms of, 16, 102, 104, 205, 394, 396, 405, 410, 411
TRUSTEE defined, 716
TRUSTEE ACTS, 1893 and 1925, provisions of, 702–3
TRUSTEE IN BANKRUPTCY, see also *Trustee*; auditing of accounts of, 456; duties of, 451; Realization Account of, 456; release of, 456; under Deed of Arrangement, 456
TURNOVER, definition of, 716

UMPIRE defined, 690
UNDERWRITERS, 327; commission to, 327
UNLIMITED COMPANIES, 281
UNPAID CALLS, treatment of, 673
"UPON CREDIT" explained, 26
UPON LEDGER (BANK), 508
USANCE defined, 222

VALUATION BALANCE SHEET, specimen of, 584
VENDOR, 299
VOTING BY PROXY, 711
VOUCHER, definition of, 716

WARRANTS, Dividend and Income Tax, 467; dock, 696
WARRANTY, definition of, 716
WASTE BOOK, 495, 501, 717
WASTING ASSETS, defined, 149; examples of, 126; machinery as, 126; writing down, 126–7
WATER COMPANY'S ACCOUNTS, Consumer's Ledger in, 380; nature of, 378
WATERED CAPITAL, frequent cause of, 300
WATERED STOCK defined, 717
WEEKLY MONEY (LOANS), 559 *note*
WEIGHTS (GROSS and NET), 248
WILL defined, 717
WINDING UP (COMPANY), 345
WORKING CAPITAL, 148, 444